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The trouble with private equity

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Politics this week

Jul 5th 2007
From The Economist print edition

AP

Britain remained on high alert against terrorist attacks after failed car-bombings in London and at Glasgow airport. Police arrested eight suspects, several of whom were doctors who had immigrated from the Middle East and India to work in the National Health Service. Gordon Brown, Britain's new prime minister, promised a review of recruitment in the service. See article

The trial opened in Istanbul of 18 young Turks suspected of involvement in the plot to assassinate Hrant Dink, an ethnic Armenian newspaper editor, in January. The usual sensitivities over such a trial are heightened because **Turkey** faces an important general election later this month.

Portugal took over from Germany as president of the European Union. Its main job over the next six months will be to draw up a full text of the new treaty agreed upon in outline by the recent EU summit—a task that could prove tricky as the Polish government is threatening to reopen the deal.

George Bush held a **summit** with Vladimir Putin in Maine. They discussed America's plan to locate missile-defence systems in the Czech Republic and Poland, which America says are aimed to reduce any threat from Iran. Sergei Ivanov, Russia's deputy prime minister and a contender for the presidency when Mr Putin steps down, repeated Russia's threat to target the systems. See article

Russia celebrated the award of the 2014 Winter Olympics to Sochi, on the Black Sea. Sochi defeated bids from Pyeongchang, South Korea, and Salzburg, Austria.

Family way

Argentina's official news agency announced that Cristina Fernandez de Kirchner, the wife of the president, Néstor Kirchner, would be the Peronist candidate in October's presidential election. See article

On a foreign tour that also took him to Russia and Belarus, **Venezuela's** president, Hugo Chávez, strengthened his alliance with **Iran**. He agreed to build petrochemical factories jointly in both countries and to sell petrol to Iran (which is short of refineries) as part of an “axis of unity” between their anti-American governments.

Delayed tactic

In Islamabad, **Pakistan's** capital, security forces besieged a mosque and *madrassa* where a radical cleric and several thousand supporters had for months been resisting the government. At least 16 people died in the operation, and dozens were injured. The cleric, Abdul Aziz, was caught trying to escape shrouded in a *burqa*. See article

Reuters

Voters in **Timor-Leste** went to the polls to elect a new parliament. The ruling party, Fretilin, claimed victory, though its share of the vote fell sharply. It faced a challenge from a new party formed by a former resistance leader and ex-president, Xanana Gusmão.

Six Canadian soldiers and their Afghan translator were killed by a roadside bomb in **Afghanistan**.

In an open letter to **Catholics in China**, Pope Benedict wrote in conciliatory terms about China's state-controlled Catholic church. He also stressed that the

church in China had no mission to change the country politically. China and the Vatican have no official relations. See article

Fumio Kyuma, **Japan**'s defence minister, resigned after making remarks that appeared to justify America's dropping of atom bombs on Nagasaki at the end of the second world war. It was the latest blow to the government of Shinzo Abe, the prime minister, which this week saw its approval ratings fall below 30% in one opinion poll. See article

Fireworks of a different kind

George Bush infuriated the Democrats, but pleased some conservatives, by commuting the 30-month prison sentence given to **Lewis "Scooter" Libby**. Mr Libby was convicted for obstructing an investigation, when he was chief of staff for Dick Cheney, into the leaking of the name of a CIA officer whose husband was a critic of the Iraq war. Mr Bush said he respected the jury's judgment but that the jail term was "excessive". The president did not rule out an eventual pardon. See article

Mr Bush's decision on Mr Libby came after the prospects for his domestic legacy started to look bleak following last week's defeat of an **immigration bill** that the president has long pushed for in the Senate. See article

The Supreme Court ended its term by agreeing to hear an appeal by detainees at **Guantánamo Bay** that challenges their indefinite confinement. The announcement was a surprise, given that the court had denied such a request in April.

Easy targets

In **Yemen**, seven Spanish tourists and two Yemenis were killed when a bomber drove an explosives-laden car into a tourist convoy. Al-Qaeda is suspected of being behind the attack. Yemen has suffered a series of terrorist attacks on foreign tourists, shipping and oil facilities in recent years.

A BBC correspondent, **Alan Johnston**, was released by kidnappers in the Gaza Strip after 114 days in captivity. The Islamist movement Hamas, which seized control of Gaza last month, took the credit for securing his release, claiming that it showed it was "serious" about imposing law and order on the territory. Militants linked to Hamas are still holding an Israeli soldier more than a year after abducting him in a cross-border raid.

Thousands of **Palestinian** civil servants in the West Bank began receiving full pay again after Israel released about $117m of frozen taxes to the Palestinian authorities. The Fatah-controlled government refused, however, to pay thousands of allies of the rival Hamas movement. See article

Pan-African unity was the main topic of discussion at an **African Union** summit in Ghana's capital, Accra. Zimbabwe's Robert Mugabe received a warm welcome, despite his appalling mismanagement of his country. See article

AFP

A day after militants in **Nigeria's** oil-rich Niger Delta region called off a month-long truce, gunmen kidnapped five more foreign oil workers. The militants complain that despite their peace gesture, the new government had failed to include them in talks about developing the impoverished region.

Some 30 junior ministers in **Kenya** wrote to President Mwai Kibaki complaining that they have nothing to do. They cost the state $9m a year in salaries and allowances; "I just go to the office and read newspapers," carped Abu Chiaba, assistant fisheries minister.

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Business this week

Jul 5th 2007
From The Economist print edition

Despite signs that the current buy-out boom may be reaching its peak, the appetite for such deals endured. Among the week's acquisitions, **Blackstone Group** added **Hilton Hotels** to its extensive leisure and commercial-property portfolio in a transaction worth $26 billion. And a consortium composed of two **private-equity firms** and the Ontario Teachers' Pension Plan said it would acquire BCE, a Canadian telecoms group, for C$51.7 billion ($48.5 billion), setting the record for the biggest-ever buy-out bid. See article

Kohlberg Kravis Roberts, an early exponent of leveraged buy-out deals, filed papers to launch a stockmarket flotation. The move had been anticipated following Blackstone's public offering last month.

Branson opens the door

Virgin Media confirmed that it had received a takeover offer and was reviewing its options. Investors have been speculating since last August about a buy-out of the British cable company, which has not been faring well against its archrival, BSkyB. See article

Carlyle Group, the firm said to be behind the latest bid for Virgin Media, had a busy few days, agreeing to buy **Manor Care**, one of America's largest providers of nursing homes, for $6.3 billion. Earlier, Carlyle teamed up with a Canadian investment group to acquire a unit from General Motors that makes **vehicle transmissions** for $5.6 billion.

Detroit's big three **carmakers** reported a steep drop in sales in the United States. General Motors fared the worst, losing more market share and recording a 24% fall in vehicle sales in June compared with the same month last year.

Chrysler signed a partnership deal with **Chery**, a Chinese carmaker, which will produce Chinese-made cars (under the Chrysler brand) for export to the United States. American carmakers have a strong presence in China's domestic market.

In Australia's biggest takeover, **Wesfarmers**, a conglomerate, succeeded in its attempt to buy **Coles**, a supermarket retailer, for A$22 billion ($18.6 billion). The share price of both companies fell sharply, however, raising fears that the deal could fall apart. Private-equity firms had been prominent in the lengthy takeover battle, either as part of the bid led by Wesfarmers or within rival consortia, but all of them eventually pulled out.

Let the train take the strain

An alliance was formed among European **high-speed train** operators to compete with low-cost airlines. Railteam, which includes Eurostar and France's SNCF, hopes to make journeys between West European cities considerably easier by enabling seamless travel. The endeavour comes amid increased passenger discontent with flight delays and environmental concerns over aircraft emissions. See article

Danone, a foodmaker based in France, said it would mull over a *euro*5.3 billion ($7.2 billion) offer for its biscuits division from America's **Kraft**. A rumoured takeover of Danone by PepsiCo in 2005 produced howls of protests from French politicians. The government promised not to interfere in negotiations this time. See article

The ownership of another of **Canary Wharf's** towers changed hands when Royal Bank of Scotland sold its building, occupied by Citigroup, in London's high-rise financial district to an investment consortium for £1 billion ($2 billion). It was Britain's second-biggest property transaction (HSBC sold its skyscraper in Canary Wharf in April for £1.1 billion). The deal underlined the current demand for prime city-office locations. Last week, the office block at 450 Park Avenue in midtown **Manhattan** was sold for $1,589 a

square foot ($17,104 a square metre), a record for commercial property in America by that measure.

Oil prices rose to a ten-month high on supply concerns. West Texas Intermediate traded at more than $71 a barrel.

The green makeover of **McDonald's** continued. The fast-food chain's British subsidiary, having switched the coffee sold in its restaurants to a rainforest-friendly variety, announced that its distribution fleet would in future run on biodiesel made from recycled cooking oil. An executive at the company promised that the exhaust fumes would not smell of burgers.

Heading for work

The euro area's harmonised **unemployment rate** inched down again to 7% in May, its lowest level ever. Unemployment in the Netherlands was the lowest (3.2%) among the 13 countries in the currency zone; it was highest in France (8.7%). Nicolas Sarkozy, the French president, repeated his claim that the euro is overvalued and hampering growth, which prompted the European Central Bank to defend its policy for managing the currency.

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KAL's cartoon

Jul 5th 2007
From The Economist print edition

Kevin Kallaugher

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The trouble with private equity

Jul 5th 2007
From The Economist print edition

Private equity has come in for much political criticism, but its more serious problems are financial

FOR the past few years the wild men of private equity have rampaged through the public markets. They have ventured into the drowsy glades of badly managed companies and they have stormed the citadels of multinationals. The wind has been at their backs for so long that it has been hard to imagine how anything could stop them (see article).

This week witnessed the biggest private-equity offer in history, a buy-out of BCE, a Canadian telecoms operator, that would be worth a total of $48.5 billion. Virgin Media, a British cable company, faces a $22 billion bid. The value of takeover deals—plenty of them involving private-equity firms—soared to $2.7 trillion in the first half of the year, almost half as much again as in the last six months of 2006. Optimists will take all that as further evidence of private equity's bright hopes. But it is also possible that the weather is turning and the debt that powers private equity's siege engines is starting—just starting, mind you—to become harder to scrape together. It may not happen this month, perhaps not even this year, but sooner or later the private-equity boom will come to an end.

This possibility will delight private equity's many critics. Private equity is routinely charged with all sorts of iniquity. It strips companies of assets and flips them for a fast buck. It loads them up with dangerous amounts of debt, to suck out capital for its investors. It pays scant attention to employees and suppliers. Its greedy partners avoid the tax that others have to pay. If the markets turn, the volume of condemnation will only increase. Imagine the derision when funds stop making money even as their partners take home large salaries on the basis of past achievements; when private-equity-owned companies default on debts, leaving insurers and pension funds saddled with the losses; when workers are put on to the street because of desperate cost-cutting or bankruptcies.

Public vices, private virtues

There's some justification for complaints against the tax regime that private equity enjoys. Partners in private-equity firms benefit from a tax break on their earnings. It should be withdrawn. And, because of tax breaks on interest payments (from which all companies, private or public, benefit), the growth of debt finance erodes the tax base. Other charges are mostly groundless. Takeovers, whether by private or public companies, tend to lead to redundancies and cost cuts. In the longer run, private equity makes money from investing in a business, because a thriving company is worth more than an ailing one.

Studies in Britain suggest that over time buy-outs add jobs rather than cutting them, and, in America, that buy-outs that rejoin the stockmarket perform better than other new issues.

That would not be surprising, because of the weakness of public markets that private equity has pointed up. Since managers and boards of public companies are spending other people's cash, they sometimes do so wastefully. That is why public-company shareholders put a lot of effort into monitoring managers and boards, who, even then, can be hard to control without resorting to boardroom coups and confrontation.

Sometimes shareholders cause trouble. They often make conflicting demands that managers must struggle to reconcile. Institutional investors tend to insist on instant performance, because their funds are judged on that quarter's returns—which undermines criticism of private equity's short-termism. The threat of shareholder lawsuits and the regulation of the public markets have added to the distracting burden of compliance and to enterprise-sapping bureaucracy. Because private-equity managers answer to a single shareholder, they have clear instructions and can spend more time creating a business with a healthy future.

At the same time as providing a critique of the equity markets, private equity has helped turn illiquid bank-dominated debt markets into highways for delivering cheap credit. It has shown that debt can finance takeovers on an unimagined scale and in industries, including finance and technology, once thought beyond its scope.

A storm is coming

The power of this debt-market transformation looks as if it is about to be tested. Rising long-term interest rates have pushed up the cost of borrowing. Sensing a shift in the economics of the industry, creditors around the world have started questioning the easy money offered to private-equity firms, which feed off risky types of debt. Last week US Foodservice, an American wholesaler being bought by private-equity groups, cancelled a $3.6 billion bond-and-loan deal when lenders balked at the lack of protection they were being offered. In Australia, private-equity firms pulled out at the last minute from the country's biggest takeover, complaining of the high cost of debt. This week the sale of a British retailer fell into confusion, after two private-equity bidders withdrew. The prospect of dwindling returns makes buy-out firms reluctant to club together to buy the big companies they covet; banks, meanwhile, are growing wary of offering their own capital as “bridge” finance. Shares in Blackstone, a private-equity chieftain that listed on the stockmarket last month, have fallen below their offer price—though it is still worth a tidy $32 billion.

That's not to say their bull run is over yet. Following Blackstone's lead, big buy-out firms continue to tap the public markets for fresh capital. There may well be a few more record-breaking takeovers. But if these squalls continue, it is not just private-equity investors who will shiver. Banks have raked in profit from the buy-out industry's appetite for loans and deal-making advice. Stockmarkets have climbed on takeover fever; more than a third of all deals in America so far this year were done by private-equity firms (in 2000, the last such takeover boom, it was a meagre 4%). High share prices make targets more expensive, and private equity is still raising record amounts of money, meaning more competition—and higher prices—for acquisitions, lowering potential returns. Private equity has scaled amazing heights; but its headiest days are probably over.

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Language and terrorism

Don't mention the GWOT

Jul 5th 2007
From The Economist print edition

A new vocabulary is needed to confront terrorism

AFP

THE “global war on terror” is what America calls its response to the September 11th attacks. Never mind the cliché, or the fact that “terrorism” is a tactic and “terror” a state of mind; George Bush's crisp slogan helped to rally a traumatised American public. His principal ally over the years, Tony Blair, shared the sentiment, if not always the same words. Now, dealing with his first terrorist plot as prime minister (see article), Gordon Brown is changing the choice of language.

And rightly so. To speak of a “global war on terror” is over-simple. Shortened to the acronym GWOT, it conflated the military campaign against al-Qaeda and its Taliban sponsors in Afghanistan in 2001 with the war two years later to overthrow Saddam Hussein, an old foe who almost certainly had nothing to do with September 11th. That Iraq is a magnet for al-Qaeda is the result of the invasion of Iraq, not its cause. GWOT also implies, wrongly, that there exists a military solution to a problem that for a few countries (eg, Afghanistan) requires a co-ordinated nation-building effort but for most demands patient police and intelligence work. “War” should be the exception, not the focus of the effort against terrorists.

The language of war (and the conduct of the wars in Iraq and Afghanistan) has alienated much of the world, among them Muslims who believe incorrectly that the West has been waging a “war on Islam” for decades, if not centuries. Such vocabulary reinforces the propaganda of al-Qaeda, which claims to be fighting a global *jihad* to defend Islam against “Crusaders and Jews”. Language matters, as Mr Bush discovered in 2001 when his one mention of a “crusade” against terrorism seemed to confirm the fears of millions of Muslims.

Some of Mr Bush's officials have tried and failed to stamp out the GWOT, preferring to talk of “global counter-insurgency”. Mr Brown has tried harder. His government chose its words carefully in response to this week's attempted car bombings in London and Glasgow. It talked about terrorists as criminals, avoided mention of “Islam” and “Islamic”, and spoke about “communities” rather than “Muslims”. Whereas Mr Blair portrayed Britain's military presence in Iraq as a battle against a global evil, Mr Brown has so far portrayed it as an obligation to the Iraqi government and the United Nations.

This is a canny change. Treating terrorists as criminals rather than enemies strips them of their glamour. And decoupling the word “Islam” from terrorism may make it easier to enlist the help of British Muslims who might otherwise feel queasy about “betraying” co-religionists.

Governments are entitled to avoid words that cause them trouble. But if emphasising “war” is wrong, so would be an effort to purge the word “Islam” from the general public discourse on terrorism. For the plain fact is that the terrorists themselves claim to be acting in Islam's name. Though the West knows Osama bin Laden's network as “al-Qaeda”, he first called it the “World Islamic Front for Jihad against Jews and Crusaders”. His followers dream of reviving an Islamic caliphate, and invoke Islamic teaching to justify

atrocities against non-Muslims and Muslims alike. Such claims may be misguided, but cannot be understood, much less challenged, by pretending that Islam has nothing at all to do with them.

Jihadists claim to be fighting a war against the West. In truth, they are fighting a war within Islam. The world needs to choose its words with care—but must also have the courage to talk honestly about what is going on.

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Global poverty

Are we nearly there yet?

Jul 5th 2007
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Mid-way through, the UN's drive against poverty remains half crusade and half charade

Reuters

MAKE poverty history is a compelling slogan. Halve it by 2015, in contrast, is a measurable commitment. That is the logic behind the Millennium Development Goals (MDGs), a host of targets in the struggle against global deprivation, disease and illiteracy, set by the world's leaders at a United Nations jamboree in 2000.

The goals claim to convert campaign slogans into bankable pledges, complete with a number and a date. The world has, for example, resolved to cut the rate at which mothers die from childbirth by three-quarters from 1990 to 2015. The percentage of people without safe water will fall by half; infant mortality by a third. Quick to spot a resonant date in the calendar, the UN has declared July 7th (07/07/07, you understand) the official halfway point towards these 2015 deadlines.

The 2000 summit was unprecedented in its pulling power, attracting more bigwigs than ever before (even the reclusive North Koreans tried to make it, although they turned back in a huff after an undiplomatic airport search). But many of the targets were a bit old hat, recycled for the second or third time. The 1980s were supposed to bring water and sanitation to the great unwashed; the 1990s were supposed to provide “education for all”. Surely, then, no one would take the MDGs all that seriously? Surely, they would quietly fade in the memory like so many other turn-of-the millennium follies and fantasies?

In fact, they have remained surprisingly conspicuous, becoming a kind of secular scripture for the aid fraternity. The UN family, of course, cherishes them. But the goals have also converted the organisation's rivals in the aid business. The World Bank invoked the goals last month when pitching for an infusion of $32 billion from its richer members. Pascal Lamy, head of the World Trade Organisation, invoked them in his plea this week to save the Doha round of global trade talks. Even the IMF, which knows an inconvertible currency when it sees one, pays them solemn respect.

As a result, the MDGs can justly claim to generate a bit of buzz about duties a government might otherwise neglect. After all, ministers in poor countries have a lot on their plate—fending off rivals, putting down insurgencies, distributing the spoils of office. Saving mothers from eclampsia or children from diarrhoea does not always command their full attention. The goals ensure some international recognition for politicians who can make progress on such things.

Sadly, however, they cannot do what they purport to do, which is to provide credible benchmarks against which governments can be judged. Set for the world as a whole, the numerical targets do not fit any country in particular. China had all but met the target of halving poverty from its 1990 levels by the time it was set a decade later. Sub-Saharan Africa, on the other hand, will fall short of all of the goals, even

though its economy is growing quicker than it has for a generation and it is putting children in school faster than any other region.

Some goals cannot be met, others cannot even be measured. Poor countries collect no reliable numbers on deaths from malaria or from childbirth—although the goals are helping to stir a welcome interest in generating better figures. And sometimes what is measured (number of children enrolled in school) is not what counts (the number who learn anything).

The goals are supposed to be everyone's responsibility, which means they are no one's. Poor countries can blame rich ones for not stumping up enough cash; rich governments can accuse poor ones of failing to deserve more money.

Some MDG zealots think the responsibility for achieving them is more clear-cut. They work out what needs to be done to meet the goals; add up the costs; then demand that the world's rich governments foot the bill. Only a lack of generosity separates poor countries from the 2015 targets, they argue.

But foreign cash does not always produce results; and some results do not require much money. Brazil is four times richer than Sri Lanka, but its children are more than twice as likely to die before their fifth birthday. Improving sanitation is about breaking habits as much as building latrines. And although aid money can send a doctor to the boondocks, it cannot make him show up to work. The social progress envisaged in the 2015 targets requires the kind of nationwide nannying that only an accountable domestic government, not a distant foreign donor, can sustain (see article).

Can the MDG exercise be salvaged? Researchers at the Centre for Global Development, a Washington think-tank, argue that donors should commit themselves to make “payments for progress”, giving a fixed sum of money to a poor country only after it has shown independently audited progress towards a goal. Donors could, for example, provide $100 for every child who completes primary school, or passes a literacy test, over and above a 2000 baseline. The payments would provide sharper incentives, as well as extra resources. No developing country could claim money was not on the table, and no donor could claim the results were not there to see.

The millennium bash secured global agreement on what matters. That is not nothing. But impoverished countries have to start where they are, not where summiteers might wish them to be. Aid money cannot bridge that gap, and the custodians of the MDGs should not pretend otherwise. But nor should a lack of foreign cash stop countries inching their way out of poverty by their own efforts—which is the only way any nation has ever done it. To make poverty history, you have to understand how history is made.

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“Scooter” Libby and the president

Justice is not blind

Jul 5th 2007
From The Economist print edition

By giving a crony a get-out-of-jail-free card, George Bush has further tarnished his presidency

Reuters

Get article background

THE past week has been a terrible one for America's embattled president. First, on June 28th, his own Republicans scuppered his cherished—and, in the view of this newspaper, enlightened and brave—plan to reform the country's broken immigration system, decisively blocking it in the Senate. Then a group of prominent Republican senators joined forces with the Democrats to speak out against his policy of reinforcing Iraq. And on July 2nd George Bush brought fresh waves of vitriol down onto his own head, by annulling the 30-month prison sentence given in June to a top White House aide, Lewis “Scooter” Libby, for perjury and obstruction of justice.

Mr Libby, a former chief of staff to Dick Cheney, the vice-president, was convicted in May in a complicated case that revolved around the leaking of the name of an undercover CIA agent to newspapers. It was claimed that this was an attempt to discredit the agent's husband, a former diplomat who had challenged the Bush administration's case that Saddam Hussein had been seeking materials to make nuclear weapons. The court did not find that a crime had been committed in the leaking. Disclosing the identity of an undercover agent is a serious offence, but only if the disclosure is deliberate. But it did find that Mr Libby had been repeatedly untruthful in his answers to questions about the affair, rejecting his contention that these were honest errors of recollection.

Mr Bush did not pardon Mr Libby outright, saying that he accepted the verdict. But he did quash his 30-month sentence on the ground that it was too harsh (though it was imposed by a judge Mr Bush had himself appointed, just as the case against Mr Libby had been brought by a prosecutor appointed by the administration). Mr Libby now walks free, and his $250,000 fine will surely be met by the rich Republican supporters who campaigned for his pardon. Yet perjury and obstruction of justice are very serious crimes. Even Paris Hilton, the wags are noting, had to go to jail for a few days.

Of course, there is hypocrisy on all sides in this matter: Democrats ought to remember that Bill Clinton was never punished for having obviously perjured himself over his activities with Monica Lewinsky. And commuting sentences and issuing pardons are constitutional rights of any president. But they are ones that should be used sparingly: remember the Republican outrage when Mr Clinton pardoned Marc Rich, a fugitive financier, and his own half-brother Roger?

A dangerous freedom

Mr Bush's action serves to remind people of three of his weaknesses. One of them is his tendency towards cronyism, which led him to appoint a wholly unqualified friend to run the government's disaster-relief agency. The consequences were disastrously manifest during the aftermath of Hurricane Katrina. Other examples include his failed attempt to appoint his own lawyer, Harriet Miers, to the Supreme Court. A second flaw is the hold that Mr Cheney appears to have over the man who is nominally his boss. The past few days have seen a series of articles in the *Washington Post* detailing the extent to which Mr Cheney has talked Mr Bush into bypassing all normal channels of debate to take questionable decisions.

A third effect of the decision, and perhaps the most serious, is that it reinforces the perception that Mr Bush sees himself and his cronies as above the law. Sometimes he has made this explicit, attaching “signing statements” to hundreds of bills sent to him by Congress asserting his right to interpret those bills as he deems fit. Sometimes he has done so covertly, wire-tapping Americans with no authorisation or permitting the use of torture with consequences felt at Abu Ghraib and in secret CIA prisons in black holes like Uzbekistan.

Perhaps, in the end, Mr Bush's decision came down to a simple calculation that he has little left to lose. He is not seeking re-election, his approval ratings can barely go any lower, and any hopes for legacy-polishing bipartisan co-operation with Congress seem to have evaporated. So why should Mr Bush not please his few remaining friends and placate his vice-president by springing the loyal Mr Libby? It makes a kind of sense, but a deeply troubling one. What else, one wonders, might so isolated a president do before he goes?

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Zimbabwe

The virtues of isolationism

Jul 5th 2007
From The Economist print edition

Robert Mugabe should be a pariah, not a regular feature on the summit circuit

AFP

Get article background

ANOTHER week, another stark contrast in how to deal with Zimbabwe's president, Robert Mugabe. In a blistering attack on Mr Mugabe's rule, the Roman Catholic Archbishop of Bulawayo, Pius Ncube, said that the state of the country was now so bad that foreign governments (particularly Britain's) should intervene to “remove” Mr Mugabe from power. Meanwhile, at an African Union summit in Ghana, Mr Mugabe was, as usual, feted by his fellow African leaders, where he pronounced on the virtues of pan-African unity.

Not only that, but the African Union is also insisting on Mr Mugabe's presence at a summit with the European Union to be held in Portugal in December. The Portuguese, who took over the rotating European Union presidency on July 1st, are making better links with Africa a priority of their six-month presidency. They say they would prefer not to have Mr Mugabe (who is already subject to an EU travel ban) at the summit, but that it would be worse to lose the summit altogether.

It is shameful that African leaders continue not only to shield but also positively to promote Mr Mugabe in this way. Apart from anything else, it makes a mockery of the noble talk of human rights and good government the African Union spouted when it relaunched itself five years ago. Instead, the African Union is coming increasingly to resemble its discredited and unlamented predecessor, the Organisation of African Unity, a mutual-protection club for dodgy presidents. The continent's leaders should by now be confident enough to see Mr Mugabe's harping on about African solidarity against imperialism for the self-serving smokescreen it is.

Every week brings grimmer news about the impoverishment and degradation of what used to be one of Africa's most prosperous countries. Zimbabwe's official inflation rate has now passed 3,700%; unofficially it is a good deal higher than that. The government's only response has been to try to impose a price freeze by force, arresting 194 people in the process. Shops have shut down and factories have stopped production because they could only carry on at a loss.

Mr Ncube's courageous outburst reflects the huge frustration that is building up inside Zimbabwe as the country falls into ruin. He also has a special animus against the president. Apart from witnessing the worst of Mr Mugabe's regime over the full 27 years of its existence, Mr Ncube was a priest in Matabeleland when Mr Mugabe first turned on those he saw as potential opponents there and massacred some 20,000 people, most of whom were entirely innocent civilians.

For that reason, Mr Ncube's appeal to the West to remove Mr Mugabe should be taken as a cry of pain, not a reason for the West to invade. Mr Ncube stressed that any intervention should be non-violent. And he knows that the threat of Western interference, particularly by Britain, the former colonial power, is one of the few ways in which Mr Mugabe can still drum up domestic support. So although the West is preparing to put Zimbabwe back on its feet once Mr Mugabe is gone, it is only the Africans, and particularly the southern Africans, who can apply the strong pressure needed to get rid of him quickly.

Say no to the African Union's blackmail

Yet the Portuguese do now have a way to give the African Union a much-needed jolt. They should refuse to let Mr Mugabe come to Lisbon. That will force Africa's leaders to reconsider their priorities. If that stops the summit from taking place, so be it: a firm stand would send a powerful message of solidarity to all those in Zimbabwe who long to be rescued from their plight. Welcoming their tormentor to Lisbon for the sake of a jamboree would be a corresponding disgrace.

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On air travel, liberalism, terrorism in Britain, rational voters, the government supremo

Jul 5th 2007
From The Economist print edition

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The crowded sky

SIR – National governments are indeed proving to be the biggest obstacle halting the achievement of an efficient air traffic control system that is also friendly to the environment (Special report on air travel, June 16th). Whereas most aircraft operators and suppliers have been privatised, airports and air traffic control remain under the authority of national, and sometimes local, government. This creates tension among the various operators, which have different economic incentives and objectives. There is an urgent need for harmonisation.

Air traffic control is still based on state boundaries. As the world around us globalises, it is ridiculous that the ocean of air is fragmented into 193 pieces of national airspace. In Europe, aircraft are transferred between control centres that seem to be allocated on the basis of the 1648 Treaty of Munster, with no regard for operational efficiency. The reason given for this state of affairs is national defence. Controlling the sky combines a military component with civic responsibilities (China, for example, retains some 70% of its airspace for military use), yet most of the inefficiencies in air traffic control are caused by the lack of integration between civil and military operations. Governments must address this problem for the good of the system.

Alexander ter Kuile
Secretary-general
Civil Air Navigation
Services Organisation
Hoofddorp, the Netherlands

SIR – It may be true that satellite and GPS technologies will assist aviation, but flight congestion is caused by what happens at airports on the ground, not the flying time between them. Moreover, technology will not supplant human controllers. When airliners are navigating through the same line of thunderstorms stretching from Texas to Canada, you want to know someone is in control who knows how to referee the order. When 60 pilots want to land on the same runway in a 30-minute period you need good people who know how to organise the whole mess while adapting for human error. If you really want to know what the problems are, ask the pilots and controllers, not political appointees at the Federal Aviation Administration.

Jimmy Wilemon
Retired air traffic controller
Albuquerque

SIR – Contrary to the claim made by a former airline executive that airline unions' wages and benefits are “out of sync with reality” (“In the land of free flight”, June 16th), our pay has been slashed since September 11th 2001. Since then, the industry has halved its number of employees, but is serving more passengers. We work harder for less.

Joshua DeVries
Flight attendant
Austin

SIR – You echoed a common belief that small executive jets add to flight congestion. But a quick review of transport statistics shows that private planes do not use the airports at which the greatest delays are suffered. Why would we? We pay through the nose to avoid delays and congestion. Sitting in line on a

taxiway is only slightly more pleasant in a private aircraft than in a commercial one.

Jared Max Hendler
Bethesda, Maryland

SIR – Your collection of articles on the problems with air travel helped me pass the time while my aeroplane circled above LaGuardia airport for two hours waiting for clearance to land.

Chris Smithka
Madison, Wisconsin

That vital centre

SIR – Perhaps your reviewer went mushy from his exposure to a lengthy discussion of liberalism, for he drained the sauce from that great old Texas political proverb about what can and can't be found in the middle of the road ("To the rescue of liberalism", June 16th). The best version I ever heard on the stump was from Jim Hightower, a tireless Texas progressive (progressives being a special breed of American liberal without the angst). The only thing to be found in the middle of the road, said Mr Hightower, are yellow stripes and dead armadillos.

Michael Oreskes
Executive editor
International Herald Tribune
Neuilly Cedex, France

A timely debate

SIR – I agree with nearly everything you said on prosecuting those involved in terror, rather than resorting to "unjust quick fixes" ("Under suspicion", June 9th). However, two of the key measures put forward by the government are Conservative ideas. For more than a year now the Conservative Party has been calling on the government to allow the use in court of "intercept" evidence and also to permit questioning of suspects after charge in terrorism cases. Both proposals would help prosecute terrorists.

Meanwhile, Bagehot laments that "scarcely anyone seems to mind" this government's erosion of our fundamental freedoms (June 9th). Yet the Conservative Party has consistently warned of the risks of further extensions of detention without trial. It would serve as a recruiting sergeant for terrorists and cut off vital community intelligence. You observe that Gordon Brown is trying to "out-tough the Tories on security". As Peter Clarke, the Metropolitan Police's head of counter-terrorism, said recently: "The trust that exists between police and public is critical to all we do, and is absolutely vital in counter-terrorism. It fundamentally affects the level of support, and of course intelligence, that we receive from the communities."

David Davis MP
Shadow home secretary
House of Commons
London

Rational choice theory

SIR – Lexington cites the work of just one political scientist to expound the idea that voters are irrational (June 16th). As an example of this irrational state of mind, Lexington refers to the opinion of most Americans on the outsourcing of jobs. Whereas the majority of people think it hurts the economy, most economists and "highly educated non-economists" defer to evidence that says sending jobs overseas is good for America on the whole. Admittedly, your typical worker does not view life from the overarching vantage point of a spreadsheet, but is it really that irrational for those who have lost, or fear losing, their jobs and subsequent health-care provision to express a belief that outsourcing is bad for "the economy"?

Lexington may think it unfortunate that workers who vote in their self-interest for decent wages and benefits hurt the overall economy, but it hardly makes us, as your obnoxious headline labelled us, "dimwits".

Cynthia Tuell

Upland, California

Some good advice

SIR – Your stab at rebranding a government “tsar” as a “supremo” calls to mind a classic episode of “Yes Minister” (“Tsarstruck”, June 16th). Jim Hacker is flattered into accepting a job as “Transport Supremo”. Sir Humphrey Appleby is crestfallen, and Hacker is wryly informed that the civil service vernacular for the post is “Transport Muggins”. A role which, Hacker is told, is needed “like an aperture in the cranial cavity”.

Tam Pollard
Edinburgh

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Millennium Development Goals

The eight commandments

Jul 5th 2007 | DHAKA, KOLKATA AND TIMBUKTU
From The Economist print edition

Panos

In 2000 the world set itself goals to cut poverty, disease and illiteracy. It will take more than aid to meet them

RICK JOHNSTON carries his “Arsenator” with him whenever he leaves his office at the United Nations Children's Fund (UNICEF) in Dhaka to check on the handpumps, standpipes and ringwells of rural Bangladesh. This device, a sort of portable chemistry set, can detect whether village groundwater is laced with dangerous concentrations of arsenic. If it finds its way into a person's organs the poison can accumulate, causing black lesions and terminal cancers.

Arsenic has contaminated over 90% of the shallow tubewells in Muradnagar, a subdistrict three hours from Dhaka. Drilling deeper is not an option: the low-lying aquifer is too salty. The households in this corner of the subdistrict rely instead on a gift from the United Nations Foundation: a $4,000-filtration plant, which can strip arsenic and iron from up to 2,000 litres of water a day. A small crowd gathers to watch Mr Johnston mix water from the plant with the chemical reagent in his kit. The Arsenator will take 20 minutes to deliver its verdict.

In 1990 more than one person in four lacked access to safe water, according to the United Nations. By 2015 that scandal will be only half as large—if the world's leaders keep the grand promises they made at the UN's New York headquarters in September 2000. The pledges, which also include halving poverty and hunger, schooling the world's children, arresting disease and rescuing mothers and their infants from untimely deaths, have been translated into eight “Millennium Development Goals” (MDGs). July 7th is officially the halfway point between setting the goals and reaching the 2015 deadline.

Millennium Development Goals 1

Selected targets to be met by 2015

- Halve the proportion of people living on less than a dollar a day
- Ensure all children complete primary school
- Educate boys and girls equally
- Reduce the mortality rate among children under five by two-thirds
- Reduce the maternal mortality rate by three-quarters
- Halt and begin to reverse the spread of HIV/AIDS, malaria and other major diseases
- Halve the proportion of people without access to safe water and sanitation
- Increase aid and improve governance

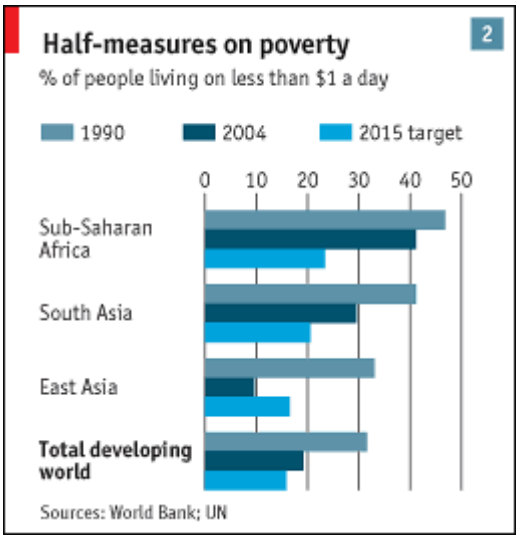
Source: UN

Sadly, the UN family is better at making goals than meeting them. In 1977 in Mar del Plata, Argentina, the world urged itself to provide safe water and sanitation for all by the end of the 1980s. In 1990 the UN renewed the call, extending the deadline to the end of the century. In 1978 in what is now Almaty, Kazakhstan, governments promised “health for all” by 2000. In 1990 in Jomtien, Thailand, they called for universal primary schooling by 2000, a goal pushed back to 2015 ten years later. Kevin Watkins, the lead author of the UN's yearly Human Development Report, worries that the pledges the UN mints so readily may become a

“debased currency”. In the summer of 2005, at the height of a campaign to “make poverty history”, only 3% of Britons thought the world would meet the 2015 goal of halving poverty, defined as the proportion of people who live on less than the equivalent of a dollar a day.

Such fatalism is as unwarranted as complacency. The world is making unprecedented progress against poverty. Thanks to miraculous growth in China and India, the first MDG target should be met. Almost 32% of people in the developing world lived on less than a dollar a day in 1990. In 2004 that figure was 19.2%. It should fall below 16% by 2015 (see chart 2).

But if such progress inspires optimism, the goals themselves provoke scepticism. They are meant to convert worthy aspirations into quantifiable commitments, against which governments can be judged. But only 57 out of 163 developing countries have counted the poor more than once since 1990. Ninety-two have not counted them at all.



The world has promised to halt the spread of malaria by 2015. But the disease's death toll is unknown. To monitor its fourth and fifth goals, cutting infant and maternal mortality, the UN would like to cull data from death certificates. But many places lack hospitals, let alone hospital records. The UN relies instead on surveys, which net 5,000-30,000 people in a country once every five years or so. These ask siblings whether they have lost any sisters to childbirth. But these estimates are too vague to track trends over time or to make meaningful comparisons between countries, the UN laments.

The numerical targets are also arbitrary. They are not a global totting up of what might be doable country by country. Far from it. China, for example, had more or less halved poverty from its 1990 level by the time that goal was set in 2000. Sub-Saharan Africa, by contrast, will not meet any of the goals. They remain too distant even to serve as beacons to steer by.

Although the extreme-poverty rate in Africa has fallen from an estimated 46% in 1999 to 41% in 2004, that is still way off the 2015 target of 22%. Hunger and malnutrition still gnaw at the region: the proportion of under-fives who are underweight has declined only marginally, from 33% in 1990 to 29% in 2005. Despite dramatic gains, Africa will not meet the goal of universal primary enrolment either; the rate is up from 57% in 1999 to 70% in 2005.

Africa lags behind partly because its population is growing so rapidly. In rural areas, mothers are giving birth to at least six children on average, doubling the population every generation. As a result, Africa's top-line numbers are improving more than its ratios. Millions more African children are going to school, but the denominator is also increasing. According to the UN, in 1990 there were 237m Africans under 14; today, that figure is 348m, and by 2015 it is expected to top 400m. What price the goal of universal schooling at that pace of population growth?

Start where you're ATT

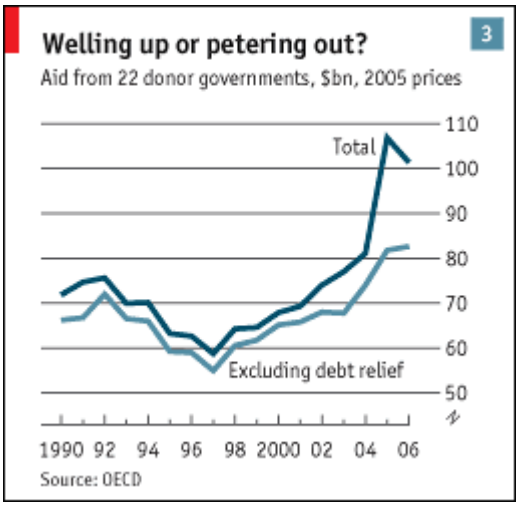
Yet it is still possible to get things done, even if not at the pace that the MDGs demand. Take Mali, for instance. This landlocked country, straddling the Sahel region and the Sahara desert, should be one of the least promising countries for development on earth. It is ranked third from bottom (in 175th place) in the UN's human-development index, just shutting out its neighbour Niger and poor Sierra Leone. Yet Western governments and aid agencies, to say nothing of Libya, the Islamic Development Bank and the Chinese, are all flocking to Mali with both great expectations and lots of money.

Why has Mali generated so much hope, whereas nearby Nigeria and Guinea, for example, provoke merely exasperation? Mali has a government, led by Amadou Toumani Touré (“ATT” to Malians) that devotes most of its limited resources to what it calls the “Struggle against Poverty” rather then squandering them on the baubles of office. Mr Touré's commitment is acknowledged by Malians, who have just re-elected him for a second term. It has also been rewarded by donors. Mali is one of only five African countries to have fully qualified for America's Millennium Challenge Account (MCA), with its stringent criteria for good governance; that alone will bring in $460m over the next five years, a huge amount in a country with a government budget of only about $1.5 billion.

How will Mr Touré spend this money? Mali's government has made agriculture and infrastructure a priority. The head of its poverty-reduction programme, Sékouba Diarra, argues that rather than depending on aid, his government wants to raise growth to lift people out of poverty. With greater mechanisation and irrigation, the country's 3.5m farmers will, he hopes, become self-supporting, growing much more than the traditional crop of cotton. Donors have been persuaded to give large sums to support this; the MCA, for example, is funding a 16,000-hectare (40,000-acre) irrigation project at Alatona, which represents almost a 20% increase in the country's drought-proof cropland.

In a desert country, irrigation is probably the most important anti-poverty tool of all, and the results can be seen in the remote villages around the desert town of Timbuktu. In recent years villagers have been shown how to build irrigation canals to capture the flood-waters of the huge Niger river, which winds its way through most of the country. This week, with the rains just about to arrive, the people of one of the villages, Adina Koira, are coming to the end of a three-month communal slog to build up their 5km of irrigation canals. On the irrigated lands they have been able to grow traditional crops such as cotton and rice, as well as new ones such as tomatoes and onions. At the moment they can buy aid-subsidised fertiliser and seeds to do this.

So successful has some of this irrigation work been that the villagers have even reversed the usual patterns of immigration. People are coming back to the villages, from the capital Bamako, or from other nearby countries such as Côte d'Ivoire and Niger, to share in the new sense of endeavour, if not actual prosperity. One man, reflecting the experience of many villagers of the Sahel, says that without the irrigation schemes “none of us would be here today.”



The hope eventually is that Mali, using the waters of the Niger, will become the bread-basket of west Africa. It would also be nice to have better access to European and American markets. But for any of that to happen, Mali needs roads and transport. The country has excellent beef, for instance. But as one UN official says, “You can't have the cattle walk 2,000km to market—they become skeletons.” During the four-month rainy season, villages just 20km or 30km apart can become cut off from trading with each other. Thus donors such as the European Union and China are building roads and the Americans are re-developing the international airport.

Donors now contribute about a fifth of the government's budget. Foreigners are happy to help out because they are confident that the funds they provide will not be misused. The institutional framework for reducing poverty seems entrenched and irreversible, whatever happens to ATT. Mr Diarra is confident that even Mali will reach the goal of halving poverty in the end. Not by 2015, but perhaps by 2025.

Goal-hanging

Such incremental progress pleases, but does not satisfy, the custodians of the MDGs, such as Jeffrey Sachs, the UN's special adviser and a tireless advocate for the goals. They are reluctant to lower their sights, arguing that the goals are akin to human rights, solemn obligations that brook no compromise. By this reckoning, the developing world's needs can be counted, the cheapest fixes can be costed, and the resulting bill can be calculated. All that remains is for the rich world to pick up the tab, so that a poor country's health and education ministries can get the job done.

This MDG-think is seductive. It is a potent mix of inspiration (saving lives and educating minds is eminently doable) and accusation (why, then, is the rich world not doing it?). But this thinking is also misleading. However laudable, the goals wrongly invite people to think of development as akin to an “engineering problem”, as Lant Pritchett, now of Harvard University, and Michael Woolcock of the World Bank have argued. The task is to pour money in one end of the MDG pipeline and then count the tubewells and school enrolments emerging from the other.

Some of the duties of government can indeed be left to the technocrats. Repealing tariffs or preserving the value of the currency are tasks best handled by “ten smart people”, the two authors point out. Mr Sachs was one such person, stopping Bolivia's hyperinflation in its tracks in 1985-86, the triumph that first made his name. In Africa, such monetary mayhem is now confined to Zimbabwe. Elsewhere,

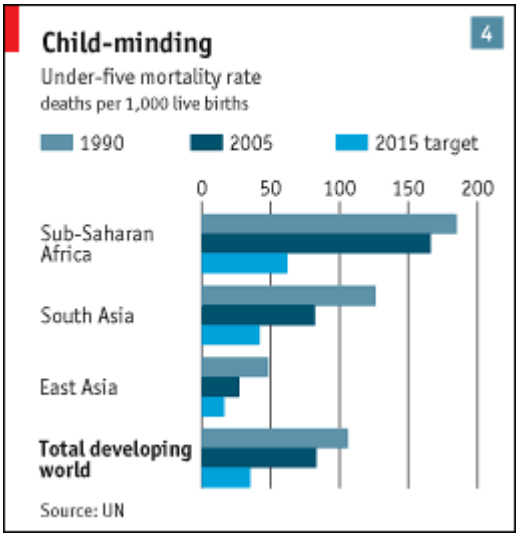
inflation has fallen from an average of 17% in 2000 to 7% last year.

Other tasks, such as laying a road or delivering a measles jab, rely on the efforts of many more people. But these legionaries need not exercise much judgment or discretion, and their output (a mile of road, a shot in the arm) can be easily counted. Thus immunisation drives and road-building campaigns lend themselves to routinised programmes that can be rolled out and "scaled up", often with the help of foreign funds. International efforts against measles have helped cut the disease's death toll in Africa from 506,000 in 1999 to 126,000 in 2005.

Most of the MDGs, however, do not play to these strengths. If a country is to educate every child and spare its infants and mothers an early death, it must enlist the efforts of thousands of teachers, nurses and midwives, all of whom must exercise care, diligence and judgment. That conscientiousness is not easy to buy or import, except in showcase communities such as Mr Sachs's Millennium Villages, of which there are several very impressive examples in Mali. For these services, the link between spending and results is notoriously weak.

Ultimate success depends not so much on field-marshals like Mr Sachs, but on footsoldiers like Rita Dana, an auxiliary nurse and midwife in the Bardhaman district of West Bengal, who patiently examines over 60 pregnant mothers in a day. They arrive from up to 3km away, complaining of abdominal pain, vomiting or swollen feet—a possible sign of dangerously high blood pressure. Some of these workers show up even when floodwater is "up to the knee", says Mohammed Hossain, a consultant to UNICEF. But perhaps a quarter of the centres, he adds, will not be open when they should be.

The more qualified the doctor, the more likely he is to take flight. The district hospital in Matlab, Bangladesh, boasts an operating table, lamp, oxygen cylinder and anaesthetic machine, all carrying the EU's gift tag. They gleam, partly because they are unused. Several surgeons and anaesthetists have been trained, but none so far retained. "Other than holding a gun to their head, doctors do not stay here," comments Shams Arifeen, a researcher in the International Centre for Diarrhoeal Disease Research, Bangladesh (ICDDR,B). Doubling their pay is not the answer, because they can earn five or ten times as much in private practice. Besides, specialists want to educate their children in Dhaka, not in Bangladesh's backwaters.



One response is to turn the doctor's arts into a routine programme. Outside a hut not far from the hospital, a young woman examines a child suffering from pneumonia and diarrhoea, with blood in his stool. Her diagnosis is guided by a flow-chart that leaves little room for discretion. She is one of about 4,500 villagers who have been given 11 days' training under a scheme called Integrated Management of Childhood Illness (IMCI). The IMCI protocols are a great leveller: Bangladeshi social workers can adhere to them as faithfully as qualified Brazilian physicians, and reach similar medical conclusions.

Doctors and paramedics pose one set of problems, patients and clients another. The IMCI workers cannot count on everybody taking the advice they offer, for example. Farida Yesmin advises a young mother, expecting her fourth child, of the need to rest and avoid lifting heavy pots of water. The mother's neighbour, sticking her nose in through the window, offers a second opinion: work never did me any harm, she insists.

The customer is not always right

Villagers think a labour of three or even four days is normal for a first-born, Ms Yesmin says; a few will also blame headaches and convulsions on evil spirits. A study published by the ICDDR,B provides an alarming catalogue of such misconceptions. Pregnant women are sometimes told to eat less than normal because an empty stomach supposedly leaves room for the baby to grow. By tradition, midwives might kick the mother's waist or break snails over her head to speed up the delivery.

Superstition is not the only source of competition. Well-stocked quacks in the private sector are adept at giving people what they want—drugs, principally—if not always what they need. One government

paramedic, his desk standing in the rainwater that leaks through the roof, confesses that he sometimes prescribes vitamin pills for the sake of it, because his patients do not expect to leave his clinic empty-handed.

Efforts to tackle the plight of the poor do not always win their favour. The needy make their own judgments about outside schemes to improve their lot. In 1980, for example, the UN proclaimed that the next ten years would be the “sanitation decade”. In India the government set about improving sanitation in villages where people still defecated by rivers and under trees. The need was glaring: contaminated water was responsible for countless deaths from diarrhoea. The solution seemed obvious: a toilet with a brick cubicle, squatting slab and two pits. The government set its budget and began building.

Unfortunately, the villagers themselves had not signed up to the UN's proclamations. They preferred to defecate a prudent distance from the place where they ate and slept. Besides, a walk helped to clear the bowels. So the government's construction programme failed abjectly as a sanitation programme. As the only *pukka* concrete structure in many homes, the toilets were often used for storing grain, keeping hens or even displaying deities, says Chandi Dey of the Ramakrishna Mission, a charity based in Kolkata.

In the late 1980s, his mission and UNICEF realised they could not tackle the sanitation need until they first drummed up demand. Songs, slogans and slideshows spread the message. Public meetings pressed it home. Mr Dey describes how they would put a drop of faecal matter into a glass of water. When people refused to drink from it, the mission would point out that they imbibed such water every day from ponds and rivers where some people defecated, even as others bathed their bodies and rinsed their mouths.

Non-governmental organisations, accustomed to the role of good Samaritans, had to learn the art of marketing. They offered people a commission for persuading their neighbours to buy a toilet. One paid 13 visits to a potential client before closing the deal. Proceeds from the sales helped meet the running costs of “rural sanitary marts”, which employed poor people as toilet-masons making a range of affordable models (mosaic or ceramic bowls; bamboo or brick walls; single pits or twin pits). Now, says one mission-member, “It is not a programme, it is a movement.”

The government soon latched on to this campaign, adding a small subsidy in 1993-94 and a presidential prize in 2003 for villages and districts that can show they are *nirmal* or unsullied. In West Bengal, where it began, more than two-thirds of rural households now have access to a toilet. But some districts still lag. M.N. Roy, a top civil servant, puts this down to the “low equilibrium” of poor expectations and apathetic politicians.

Parish-pump politics

The trick is to sharpen the elbows and strengthen the hands of poor people so that they demand what they need and get what they demand. For example, a recent report on the MDGs by the World Bank's Bangladesh office lavishes praise on the efforts of Gonoshasthaya Kendra (GK), a health charity, which began life as a battlefield clinic, treating the casualties of Bangladesh's war of independence. Born in battle, the group still sees a place for “creative tension” between the poor and the people who are supposed to serve them. Whenever someone dies in a village, it holds a public post-mortem. The aim is not to blame or indict *per se*—bare-knuckled confrontation would alienate the government—but to remind public servants that someone is watching them, and that the negligent will be named and shamed.

EPA

Promises, promises

But is this brand of feisty local politics something donors can cultivate? Aid proposals are now replete with mentions of the word “community”. Sceptics argue that donors will conjure up “communities” to fit their projects and their timetables, even if no such organic political unit exists. They also worry that ceding control to the grassroots may simply put aid in the hands of the local mafia.

Perhaps all donors can do is pray for a more productive politics to evolve, then support it when it does. Mali, for example, has gone further than any other African country in decentralising its government. In 1991 it had 18 local communes, now it has 702. In many communes the people now actually pay local taxes and can see the tangible results of the money that they hand over in a school or a health centre. Alexander Newton, the head of USAID in Mali, which helps train the new layer of local administrators in 155 of the communes, argues that “local management of money tends to be much better.”

Likewise, in Bangladesh, households are often asked to pay something towards the filters that strip their water of arsenic. These charges are not mean-spirited. They aim instead to turn victims into proprietors. A financial contribution is proof of a household's commitment to a scheme, which helps to ensure a filter's upkeep. Halima paid 300 takas ($4.30) for her filter. Now she wouldn't part with it for 5,000.

Across the border in West Bengal, villages are going a step further. For each well or pump, they are convening a water committee. The committees collect dues to pay for regular water-quality tests by laboratories set up in the sanitary marts. Elsewhere, such committees have not always lasted; everyone would rather someone else paid to maintain their well. But without them, villages will remain forever dependent on outside professionals from the government, UNICEF and the like.

After 20 minutes, Mr Johnston's arsenic reading is ready. The test paper has turned an ominous shade of ochre, suggesting arsenic up to four times the allowable limit. He is phlegmatic. The filter's granules have probably reached the end of their natural life. Once informed, the company can fix it within days, and it takes years of exposure at these concentrations to suffer much harm. But as schoolchildren busily fill their *kolshi* pitchers with contaminated water, the easy promises of seven years ago feel a long way from fulfilment.

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The candidates: Mitt Romney

Mr Smooth of Massachusetts

Jul 5th 2007 | CHICAGO AND KANSAS CITY, MISSOURI
From The Economist print edition

Getty Images

He looks presidential. In some ways, he is the most accomplished candidate. But will voters trust him?

YOU can't accuse Mitt Romney of skirting the tricky issues. Addressing the National Right to Life Convention in Kansas City on June 15th, he said: “I am humbled to be standing among the many who have toiled for the pro-life movement for so long, when I arrived at this place of principle only a few years ago.” In the circumstances, humility was his only option.

Of the main declared contenders for the Republican presidential nomination, Mr Romney is the most socially conservative. Abortion, gay marriage, foetal stem-cell research—he's against them all. But in 2002, when he ran for governor of Massachusetts, he said that while he personally opposed abortion, he thought it should be a private choice. That helped him win in one of America's most liberal states. Now, as he faces Republican primary voters, he says he has changed his mind.

His explanation is that while he was governor he had to grapple with the issue of cloning human embryos. He spoke to scientists who said they created “racks and racks” of embryos to experiment on, and then destroyed them. He realised, he says, that “the harsh logic of an absolute right to abortion had cheapened the value of human life to the point that rational people saw a human embryo as nothing more than mere research material.”

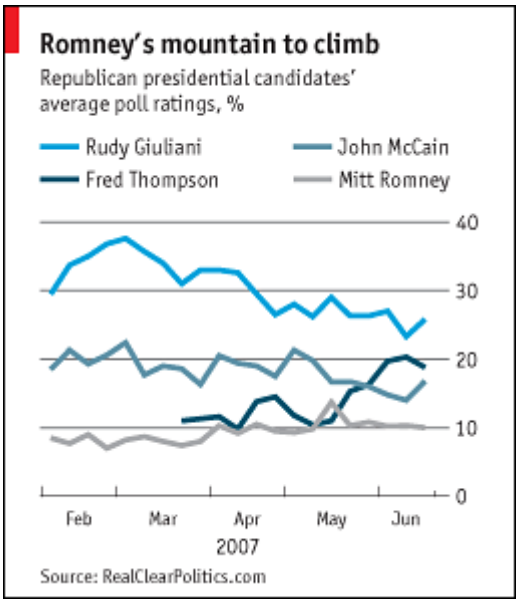
So now he wants to overturn *Roe v Wade*, the 1973 Supreme Court decision that created a constitutional right to an abortion. Pro-life Christians are receptive to the idea of conversion: Ronald Reagan did it, after all. Mr Romney got a standing ovation in Kansas City. Granted, it was not as ecstatic as the applause that greeted Sam Brownback, another presidential wannabe whose pro-life credentials are beyond question. But Republicans are practical folk. They want a candidate who can win. Mr Brownback cannot. Mr Romney just might.

Reasons to be smitten...

Willard “Mitt” Romney is the most under-rated of candidates. As recently as February, barely half of Americans had heard of him. Political junkies know who he is, but often assume his bid for the White House is doomed because he is a Mormon. That is certainly a handicap: one-fifth of voters say they would not vote for one. But Mr Romney thinks that once they get to know him, they will change their minds.

He may be right. In national polls, he comes only fourth among candidates for the Republican nomination, after Rudy Giuliani, John McCain and Fred Thompson, who is expected soon to announce his candidacy. But Mr Romney is good at raising money. He took in $21m in the first quarter, more than any other Republican. He raised much less in the second quarter, and nowhere near as much as Barack Obama (see article), but his personal fortune, estimated at between $190m and $250m, allows him to fund part of his campaign out of his own pocket. Most important, in the two early-voting states where he has been campaigning hard, he leads the Republican field: by around eight points in Iowa and seven in New Hampshire. His plan is to win these two and then ride the subsequent national publicity to the nomination.

He has several appealing qualities. The most obvious is competence. Nearly everything he has done, he has done well. He co-founded Bain Capital, a firm that made returns of 100% a year while he was in charge by investing in start-ups or buying ill-managed firms and reviving them. His colleagues describe him as an excellent manager with a hunger for detail. For example, when deciding whether to invest in Staples, a discount stationery store, he ignored what small businesses told him they spent on stationery and asked instead to look at the receipts. He found they spent far more than they thought. He saw a gap in the market, Staples filled it and Mr Romney made a packet.



His first stab at public service came when he was hired to salvage the 2002 Winter Olympics in Salt Lake City. The games were in the red and roiled by allegations of bribery. Mr Romney stepped in, cut spending, boosted revenues and turned a $100m profit. That gave him a springboard from which to win the governorship of Massachusetts later that year.

There, he inherited a deficit of $3 billion. He cut spending, raised fees for such things as drivers' licences and gun licences and, with the help of a windfall in capital-gains taxes, turned the deficit into a $700m surplus by 2006. Perhaps his most striking achievement, however, was to make health insurance compulsory.

His scheme, thrashed out with the Democrats who control the Massachusetts legislature, seeks to make health care universal but still largely private. All but the smallest employers are obliged to offer or contribute to their employees' health insurance. Individuals who still lack coverage are required to buy it. For the poor, there are subsidies. For everyone else, there are tax breaks. And Mr Romney has set up an exchange to make it easier to shop around for the right insurance policy.

The scheme addresses one of America's prickliest problems. Too many people lack insurance, and those who have it, who mostly get it via their employers, are terrified of losing it if they lose their jobs. This heightens many Americans' sense of insecurity and stiffens opposition to globalisation. Whether Mr Romney's plan will work remains to be seen—it came into force only on July 1st. Sceptics note that although car insurance is also compulsory, many drivers refuse to buy it. Mr Romney is keen to see all 50 states experiment to find out what works, unlike the Democrats seeking the presidency, who mostly favour grand federal schemes.

Beyond competence, Mr Romney looks presidential. He is tall and handsome, and he answers questions crisply and intelligently. Unusually for a man who preaches family values, he practices them too. He married his high-school sweetheart. They are still happily married. They have five sons, all of whom are married and three of whom were Eagle Scouts. In a field where nearly all the other candidates have complicated family lives, this is a big asset.

Mr Romney's campaign is one of the most professional. He has hired good people. He has deluged Iowa and New Hampshire with TV spots. He has avoided major gaffes. And his apparent strategy makes sense. First, to win over the Republican base by stressing that he is both socially and fiscally conservative: pro-market, pro-military, pro-family, anti-abortion, anti-gay marriage and anti-tax. If he wins the nomination, he will presumably then make a play for the centre ground by stressing his competence, his ability to work with Democrats and the fact that his health reform actually happened, whereas Hillary Clinton's flopped.

So far, his supporters seem more attracted to his track record than his platform. Frank Calabrese, a

student who came to hear him speak in Chicago last month, says Mr Romney is “the most accomplished candidate”; adding that his success at everything he turns his hand to is “almost non-human”. That, ironically, is one of his weaknesses.

...and reasons not to be

Mr Romney is in some ways too good to be true. Voters are suckers for politicians with humanising flaws—think of Bill Clinton or George W. Bush. Mr Romney seems never to have misbehaved in his life. He drinks nothing stronger than Vanilla Coke and says nothing stronger than “Holy Cow!”. His life story lacks the pleasing, anything-is-possible-in-America upward trajectory of say, Mr Obama's or John Edwards's. His father, George Romney, was a bigshot businessman, governor of Michigan and a serious presidential candidate in 1968.

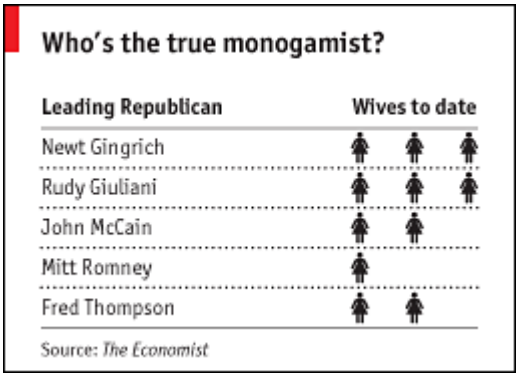
Cynics mock Mr Romney's family, too, for being so improbably wholesome. Tagg Romney, his eldest son, responds with gentle humour on the blog he shares with his four brothers: “Maybe one of us could jaywalk or drive 30 in a 25 zone.” Mitt Romney also has a nice line in self-deprecation. He recounts, for example, how he asked his wife, as the Salt Lake City games were about to begin: “Did you ever in your wildest dreams imagine that we'd be here at the Olympics?” She replied: “Mitt, you weren't in my wildest dreams.”

Mr Romney's second weakness is that his positions are too good to be true. Or rather, they have but recently come to fit almost perfectly with what a plurality of Republican primary voters believe. For example, when trying to unseat Ted Kennedy from the Senate in 1994, he said he would “provide more effective leadership” than Mr Kennedy in promoting “full equality” for gays. He said he personally opposed gay marriage, but thought the matter best left to the states. Now he says he wants a federal constitutional amendment banning it. The campaign has barely begun, and his rivals are already gleefully hammering his flip-flops. Sam Brownback's people pushed a flier calling his pro-life conversion “false” under your correspondent's door in Kansas City, and a man in a dolphin suit stood outside the hotel claiming to be “Flip Romney”.

Mr Romney's final weakness is his religion. Many evangelicals view Mormons as heretics. Many more secular folk worry that Mormonism is a cult. Some things that Mormons believed until quite recently make many Americans uncomfortable. Blacks were barred from the Mormon priesthood until 1978. And although the Mormon church renounced polygamy in 1890, a few splinter groups still practise it. Amusingly though, Mr Romney is the most monogamous of the leading Republicans (see chart below).

During a Republican debate last month, a presenter recalled that one voter had refused to shake Mr Romney's hand because he was a Mormon. He then asked Mr Romney what he would like to say to voters about his faith. Mr Romney said:

“I think if you want to understand what I believe, you could recognise that the values that I have are the same values you'll find in faiths across this country. I believe in God, believe in the Bible, believe Jesus Christ is my saviour. I believe that God created man in his image. I believe that the freedoms of man derive from inalienable rights that were given to us by God. And I also believe that there are some pundits out there that are hoping that I'll distance myself from my church...and that's not going to happen.”



On the page, his words seem ordinary. But when Frank Luntz, a pollster, tested a focus group's reactions to watching Mr Romney deliver them, he found that self-described conservatives gave him an approval rating above 80%, while moderates gave him more than 90%. In short, Mr Romney looks and sounds good on television. That matters.

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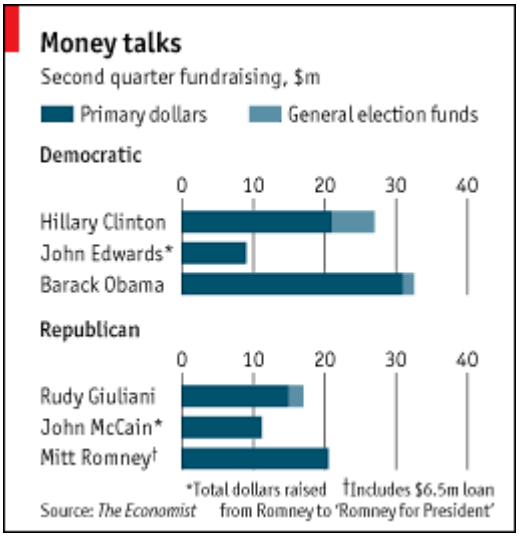
Election finance

Of cash and crushes

Jul 5th 2007 | WASHINGTON, DC
From The Economist print edition

Barack Obama soars, John McCain crashes

MONEY can't buy you love, but when voters love you, they often give you money. Barack Obama raised a stunning $32.5m in the second quarter of this year, considerably more than Hillary Clinton and more than the top two Republicans combined. An impressive 258,000 people contributed to Mr Obama's campaign in the first six months of the year. Most gave only small amounts, which means he can ask them for more later. And 110,000 of them donated via the internet, which means he has their e-mail addresses.



In any previous year Mrs Clinton's second-quarter fundraising would have looked splendid: her campaign says she raised about $27m. But only $21m of that can be used for her primary battle, whereas nearly all ($31m) of Mr Obama's trove can be. The rest of the Democratic field receded into the distance. John Edwards raised just $9m, while Bill Richardson pulled in roughly $7m.

Mr Obama's fundraising prowess gives him momentum. Granted, Mrs Clinton remains consistently ahead in the polls. An average of polls by RealClearPolitics.com suggests that 37% of Democratic primary voters would pick her, against 23% for Mr Obama, 12% for Mr Edwards and 15% for Al Gore, who says he is not running but has not ruled it out. But if and when John Edwards drops out, the anti-Hillary vote will no longer be divided, and Mr Obama is the likely beneficiary. The political futures market—often a more reliable guide than opinion polls because it involves people betting real money—shows Mr Obama gaining ground. The odds of Mrs Clinton clinching the nomination, as quoted at intrade.com, have fallen from over 50% in early June to 43%, while Mr Obama's odds have strengthened from 28% to 35%. She is still well ahead on this measure, though.

On the Republican side, the main news was that John McCain is in deep trouble. Although he raised $11.2m in the second quarter, he has spent all but $2m of it. He announced this week that he would have to lay off several paid campaign staff and may consider accepting public funding, which comes with tight spending limits. The futures market now gives Mr McCain a mere 5% chance of winning the Republican nomination. Rudy Giuliani, who raised $17m in the second quarter and has about $15m in the bank for the primaries, enjoys the best odds—35.5%. Fred Thompson, a former senator from Tennessee who is expected to declare his candidacy soon, is a whisker behind at 34.9%. Mitt Romney, who raised $14m and has a huge personal fortune to draw on, comes third with 19%.

Democratic candidates are out-raising Republicans by a factor of three to two, which suggests that Democratic voters are more fired up than Republicans, at least for now. Mr Obama is generating the most heat. An actress recently starred in a saucy video called “I got a crush on Obama”. (Sample lyrics: “You can Barack me tonight” and “Universal health-care reform, it makes me warm”.) It is hard to envisage any other candidate inspiring anything similar. McCain me harder?

Meanwhile, Al Gore's daughter Kristin has just released a novel about life in the White House with a noble vice-president, a dissolute president and a ghastly first lady whose “paranoia was legendary”. Where does she get her material?

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The bald eagle

Downgrading an icon

Jul 5th 2007
From The Economist print edition

No longer listed as endangered

THE turkey, a “bird of courage” which “would not hesitate to attack a grenadier of the British guards”, would have made a much better national symbol than the carrion-snatching bald eagle. So thought Benjamin Franklin, despite the former creature being fat and flightless. The eagle was enshrined on America's Great Seal anyway. But on June 28th, in a move of which Franklin would doubtless approve, the Fish and Wildlife Service (FWS) announced that it would remove the bald eagle from the list of creatures protected under the Endangered Species Act. The change will take effect in early August.

Environmentalists cannot really argue that eagle numbers are too low for this to be dangerous. The eagle population first took a knock when America expanded west and trigger-happy ranchers confused the pescivorous scavenger with the golden eagle, a species that really does eat chicken and sheep. In the 1960s the number of nesting bald-eagle couples plummeted to 417 because DDE, a compound formed by the decay of the pesticide DDT, stopped females depositing calcium in the shells of their eggs. Sitting on those eggs to incubate them thus squashed them.

These days there are 10,000 breeding pairs. That is more than double the number the FWS once deemed sufficient to justify striking the species from those covered by the act. The population has rebounded since DDT was banned and the eagles' listing as endangered made it illegal to chop down trees within 330 feet (101 metres) of their nests.

Doing away with its listing removes the prohibition on destroying the eagles' habitat. That irks Steven Sheffield, a biologist who reviewed the decision for the FWS, because eagles tend to build their nests in the same spots that humans like to build houses. He fears a rush on lakeside development when the delisting comes into force.

Whether that will happen, though, depends on what the courts make of add-ons to an old law. “Taking” a bald eagle—adult or egg—has been illegal since 1940 when the former often got shot. “Disturbing” one has always been included within “taking” it, but the FWS only recently clarified what this means. The agency's more detailed thoughts on how the public should behave, though, are mere guidelines.

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Pre-natal testing

Wanted: perfection

Jul 5th 2007 | PHOENIX
From The Economist print edition

Doctors try not to be sued over Down's syndrome babies

BUSINESS is brisk at Phoenix Perinatal Associates, a practice for high-risk pregnancies in Arizona. “We are solidly booked for months,” the receptionist sighs. Part of the rush comes from new guidelines published on January 2nd by the American College of Obstetricians and Gynaecologists (ACOG). These urge that all pregnant women, regardless of age, should be screened for babies with Down's syndrome.

Only women over 35 have a high risk of producing a Down's syndrome child. They have been screened through blood tests and ultrasound scans, then with amniocentesis or chorionic villus sampling (CVS), in which cells are taken from the developing embryo. Younger mums have been screened too, but in their second trimesters and only with blood tests. The new recommendation is that all women be screened at the 20th week, using the same tests; and many women are being pushed to have them earlier.

Many like the idea. The tests will be more accurate (amniocentesis has a 99% accuracy rate), and will give women more time to decide what to do. It makes sense to test under-35s: 80% of Down's syndrome babies are born to younger women, because their fertility rates are higher. But others find the changes unsettling, and with reason. Both amniocentesis and CVS tests carry a slight risk of miscarriage. And roughly 80% of women testing positive for Down's have abortions.

The new guidelines may also be triggered by the surge in lawsuits. In November an ACOG survey found that 65% of obstetrician-gynaecologists had reduced their practices for fear of liability claims. Clinic workers confirm that women who have imperfect babies tend to blame doctors. One nurse says her clinic can't afford the insurance to ward off the suits. “If more tests reduce our risks, then so be it.”

To advocates of the 350,000 Americans with Down's syndrome, all this sounds disturbing. Jon Colman, the chief operating officer at the National Down Syndrome Society (NDSS), notes that although many of them are born susceptible to heart problems, hearing loss and respiratory problems as well as mental retardation, most contribute to their families and communities and all are entitled to lead productive, independent lives. Down's children, many parents say, are delightful to bring up. And most do not die in their 20s, as Americans tend to assume, but can hope to live into their mid-50s.

Back in February, the NDSS challenged ACOG and others to make common cause with Down's syndrome organisations to give parents better information. They also urged doctors not to push expectant parents into prenatal testing, or towards abortion. But monitoring a more restrained approach might be tough. Many obstetricians are clearly overworked, with no time to offer more than suggestions and results. And although the guidelines describe these tests as options, many pregnant women are feeling badgered. Some are being asked six times or more whether they want an amniocentesis.

Asked what his goal was, one genetic counsellor in Phoenix replies: “To catch as many Down's babies” as he can. But with such eagerness, much could go wrong. Academic research suggests that around one in 100 40-year-olds produce Down's syndrome babies, but many Arizona clinics cite a figure as high as one in four. “There must be a regulated message,” says one 40-year-old new mum in Chandler. “And even then I would question it.”

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Illegal immigration

Nowhere to hide

Jul 5th 2007 | SAN DIEGO AND SCOTTSDALE
From The Economist print edition

The failure of immigration reform will have unfortunate consequences

Get article background

DESPITE its name, Smugglers' Gulch is one of the toughest places to sneak into America. The ravine near San Diego is bisected by a steel wall and watched day and night by agents of the border patrol, who track would-be illegal immigrants with the help of floodlights, helicopters and underground pressure sensors. Rafael, a cement worker, has already been caught jumping over the fence five times. Yet he still loiters on the Mexican side of the fence, waiting for nightfall and another chance to cross. How much longer will he keep trying? “Until I get through,” he says.

Last week the Senate tried, and failed, to deal with the problem of illegal immigration. After much debate it abandoned a bill that would have provided more money for border security but also allowed many illegal immigrants to obtain visas. Liberals had argued that the sheer number of people like Rafael—some 12m are thought to be living illegally in America—made reform more urgent. For some Republicans, and the small but loud nativist posse who hectored them, it made anything resembling an amnesty unpalatable.

Piecemeal legislation may follow, strengthening the border and, perhaps, making it easier for farmers to employ foreign workers. But a bill that deals realistically with the huge number of illegals in America will be stymied until at least 2009, when the next president is sworn in. And it may take much longer. Any politician who is tempted to throw his weight behind immigration reform may consider the fate of John McCain, the presidential candidate most strongly associated with the Senate bill. His support among Republicans has eroded in the past two months and he is struggling to raise money.

Yet the collapse of the Senate bill does not mean illegal immigration will go away, either as a fact or as an urgent political issue. Indeed, one likely consequence will be an outbreak of ad hoc law-making in cities and states. Liberal and Hispanic enclaves may follow the example of National City, on the outskirts of San Diego, and declare themselves to be “sanctuary cities” where police officers are told not to quiz people about their immigration status. Others—probably a greater number—will tell the cops to do precisely that, or enact other laws against illegal immigrants and the people who house and employ them.

One such place is Arizona, where Janet Napolitano, the governor, signed a bill this week imposing stiff penalties on employers who hire illegal immigrants. Those who are caught once will have their licences suspended; a second offence will put them out of business. Even the governor admits the bill is too broadly drawn and will be hard to enforce. She signed it, she explained, because the federal government has shown itself to be incapable of dealing with illegal immigration.

One in ten workers in Arizona is illegal, according to the Pew Hispanic Centre. So the law, if rigorously enforced, could disrupt the state's economy. Which suggests it will not be. One landscape gardener in Scottsdale who worked illegally for three decades and now pays illicit workers $7 an hour thinks the measure is ridiculous. “Who else is going to pick lettuces and trim trees in this heat?” he asks, pointing to the sun on a 47°C (117°F) day. He has no plans to change his ways, and says he will simply move if he is caught.

Laws such as Arizona's will make life more unpleasant and unpredictable for illegal workers. But they will not curtail either illegal immigration or illicit working as much as supporters claim. Subcontracting, which is common both in farming and in the construction business, makes it difficult to punish companies for employing dodgy workers. In any case, the border has been so porous for so long that people now have plenty of reasons to steal across it other than work. Of five aspiring immigrants who spoke to your correspondent in Smugglers' Gulch earlier this week, three were trying to join their families.

Those who defeated the Senate's immigration bill won a pyrrhic victory. Not only did they sacrifice funding for border policing; they also lost a guest-worker programme that would have allowed hundreds of thousands of legal grunts into the country each year. At present, importing temporary workers is so difficult and expensive that most bosses find it easier to wink at illegality.

Americans have made it clear over the past year that they want the federal government to do something about illegal immigration. It is hard to know whom they will now blame for its failure. The nativist wing of the Republican party was fiercest in opposition to the Senate bill, and crowed loudest over its defeat—something it may come to regret. On the other hand, the Democrats run both chambers of Congress. Voters may decide to hold them responsible for failing to solve the problem. That would be unfair: because of Senate rules, the Democrats can pass nothing without Republican co-operation.

In the long term, though, anti-immigrant hardliners are likely to suffer most. Latino voters are growing quickly in number (see article) and history suggests they will punish intolerant talk on immigration. Mark DiCamillo, a pollster, points out that California's Hispanics used to lean only slightly leftwards. In 1990, for example, they favoured Dianne Feinstein, the Democratic candidate for governor, over Pete Wilson, a Republican, by 53% to 47%. Then in 1994 came a ballot initiative, supported by Mr Wilson, which sought to make life much more difficult for illegal immigrants. Since then California's Latinos have favoured Democrats by a margin of between two-to-one and four-to-one.

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Citizenship drives

Staying in America

Jul 5th 2007 | AUSTIN
From The Economist print edition

Millions of immigrants could be naturalised before the next election

Get article background

THE easiest way to become an American citizen is to be born there. But for those who fail to plan so far in advance, becoming an American citizen is not so difficult, once you have secured the right to work. Lawful permanent residents are eligible for naturalisation after living in America for five years, unless they have spent too much time out of the country or fallen foul of the law.

More than 8m immigrants are thus eligible for naturalisation. Roughly a third are Mexican. Permanent residents from Mexico have historically applied for naturalisation at lower rates than immigrants from other countries, partly because it is easy to go back and forth between Mexico and the United States.

But now many legal immigrants from Mexico want full citizenship. And many Latino citizens want them to get it. In January 2007 the *Ya es hora ¡Ciudadania!* campaign was launched. (The name translates roughly as “Citizenship—now is the time!”) Its goal is to help 1m people get naturalised this year. Their votes, say organisers, will matter in forthcoming elections—and could be especially interesting in Florida, a key swing state. As citizens, they could add their voices to calls for immigration reform.

The campaign has many sponsors and affiliates. Univision, the largest Spanish-language broadcaster in the United States, is spreading the word. Citizenship centres across the country are helping permanent residents fill out the naturalisation forms. The campaign has already claimed some success. After Univision's Los Angeles station took it up in January, citizenship applications rocketed in Southern California.

That said, naturalisation rates were rising even before the campaign began. One reason is that in 1998, Mexico passed a law allowing emigrants to retain or reclaim Mexican nationality even after acquiring American citizenship. Previously, they would have had to give up the former.

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Lexington

Supreme success

Jul 5th 2007
From The Economist print edition

Kevin Kallaugher

The president's biggest domestic success could also be an opportunity for the left

Get article background

GEORGE BUSH'S domestic legacy is shrinking almost as fast as his foreign-policy one is unravelling. The immigration reform that he backed collapsed last week. Social Security reform never got off the ground. The Democrats hope to roll back his tax cuts. Is it possible that the only legacy this most conservative of presidents will leave will be a thoroughly Clintonian education act and the entitlement-exploding prescription drugs benefit?

Not quite. Mr Bush has succeeded in shifting the Supreme Court significantly to the right by appointing two bright and solid conservatives, John Roberts and Samuel Alito, to replace William Rehnquist and Sandra Day O'Connor. And as a flurry of decisions last week demonstrated, that success could continue to reshape domestic policy for decades to come.

Chief Justice Roberts does not mark a big shift from Chief Justice Rehnquist, to be sure. But Mr Alito is proving to be a much more reliable conservative soldier than Ms O'Connor. Ms O'Connor was a swing voter who went right on economic issues and left on social issues such as affirmative action and abortion. Mr Alito has regularly voted with the court's other conservatives, Antonin Scalia, Clarence Thomas and Mr Roberts. Moreover, the emergence of a solid conservative block has also changed the court's internal dynamics. Anthony Kennedy has replaced Ms O'Connor as the vital swing vote. But Mr Kennedy has long harboured doubts about race-based affirmative action and partial-birth abortion, among other liberal totems.

It is possible to question how much personal credit Mr Bush can claim for this transformation. The conservative movement has been labouring to reshape the court for a generation. Mr Bush almost scuppered the whole project when he nominated a lightweight family retainer, Harriet Miers, to fill Ms O'Connor's seat. It took a full-scale conservative revolt, combined with a dismal performance by Ms Miers on Capitol Hill, to persuade Mr Bush to withdraw her name in favour of Mr Alito's.

The impact of the changes that have taken place on Mr Bush's watch, though, is unquestionable. The 2006-07 term saw a succession of conservative victories on issues large and small (the conservative block won 13 ideologically charged cases compared with just six for the liberal block). In a group of rulings issued as the term ended last week the court limited the right to sue for perceived violations of

the separation of church and state; upheld the right of school authorities to expel a child who was mocking its anti-drug policy (the much-debated “Bong hits 4 Jesus” case); and, most important of all, limited school districts' ability to use racial criteria to promote or preserve racial integration. This came in the wake of the court's decision to uphold a federal ban on partial-birth abortion—a technique used only for late terminations.

This does not mean that the court will march relentlessly to the right. Conservatives disagree among themselves. Mr Roberts has a strong preference for making “narrow” decisions that have limited value as precedents. And one should never forget that the court is not a council of philosopher kings: Mr Scalia has gritted his teeth and upheld the right to burn flags for the simple reason that it is guaranteed by the constitution. But the drift is pretty clear nonetheless.

This is a long-term challenge for liberal America. For decades, liberals have relied on the courts to push through some of their most cherished policies. But the conservative lock on the Supreme Court could well last a generation, even if the Democrats win the White House in 2008, as looks likely. The two justices who are closest to the exit door all belong to the liberal block: John Paul Stevens, for example, is 87. The new chief justice is a youthful 52-year-old who possesses the combination of high intellect and judicial temperament that could allow him to put his stamp on the court.

But the shift will also bring opportunities for liberal America. Its reliance on the court has been a mixed blessing. Liberals have often failed to build public support for their beliefs: why bother to persuade people when you can rely on activist judges? They have also become the prisoners of a purism that compels them to take beliefs to their logical conclusion even if the consequence is to offend ordinary voters (support for a woman's right to choose becomes support for abortion up to the moment of delivery). The abolition of school prayer and the imposition of school busing fuelled a conservative movement that fed on populism and resentment.

Things are not so bad, even for liberals

The Roberts court could well prevent liberal America from indulging in yet another self-damaging act of judicial overreach—discovering a constitutional right to gay marriage (something Massachusetts's highest court has already done). Sensible gay-marriage advocates will now concentrate on winning their battles in the court of public opinion and the chambers of the legislature. Which, surely, is how it should be.

There is no doubt that the new court will annoy liberal America. It will punch holes in the wall between church and state. It will uphold some restrictions on abortion. But the frustrations will not prove as painful as they might seem. By confirming the federal ban on partial-birth abortion, for example, the court has brought abortion practice more closely into line with popular opinion and international practice. The court could even force liberals to rediscover the lost art of popular persuasion. And it will force them to be more imaginative in advancing their core ideas. Its prejudice against race-based affirmative action will force the left to think of better ways of dealing with poverty. Liberals might experiment with income-based affirmative action, for example, or with vouchers that give more money to the poor. All of which might do liberalism more good than harm.

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Argentina

Mrs Kirchner steps forward

Jul 5th 2007 | BUENOS AIRES
From The Economist print edition

Reuters

By making Cristina the presidential candidate, the Kirchners promise change as well as continuity

Get article background

SINCE his earliest days in office, Néstor Kirchner said that he would not run for a second four-year term as Argentina's president. Until recently, almost nobody believed him. But after delaying a final decision for months, Mr Kirchner has fulfilled his improbable promise. On July 1st the official news agency reported that his wife, Cristina Fernández de Kirchner, will run in his stead as the ruling Peronist party's candidate in the presidential election of October 28th.

Although her campaign will not formally kick off until July 19th, the streets of Buenos Aires were this week plastered with posters of the first-lady-turned-nominee, and Mr Kirchner is already stumping on her behalf. “I assure you her government will be far better than the one we have run until now,” he said gallantly.

Uxorial politics is nothing new in Argentina: Juan Perón, a populist strongman, was flanked by his second wife, Eva, in his heyday in the 1940s, and succeeded by his third wife, Isabel, in the 1970s. Like Eva Perón, Cristina Kirchner is a powerful politician in her own right. Unlike her, she has long held national office, being a well-known senator when her husband was the governor of the remote Patagonian province of Santa Cruz.

The choice of Mrs Kirchner shows the first couple's confidence that either can win easily. She is slightly less popular than her husband. But according to opinion polls, she would gain the support of some 50-60% of decided voters. That is more than the 45% (or 40% plus a ten-point lead) required to avoid a run-off.

The Kirchners' electoral strength stems mainly from an economy that has grown at an annual average rate of 9% for the past four years. Helped by high prices for its farm exports, Argentina has recovered vigorously from its economic collapse of 2001-02. Unemployment has fallen from a peak of 21% to 10% (excluding those on workfare programmes); today, 27% of Argentines live in poverty, compared with

more than half in 2002.

Even so, the government suddenly looks fragile. A chilly start to the winter has plunged the country into what Mr Kirchner has admitted is an energy “crisis”, with blackouts, fuel shortages and factory lay-offs. That is a result of his populist energy policy: a price freeze has discouraged investment. Inflation is rising, despite price controls that lead to occasional shortages of milk and meat. The (massaged) official figure is 9% over the past 12 months. But Ernesto Kritz, a labour economist, calculates that the price of staples rose by 15.4% between December and May alone.

Scandals are starting to mushroom. In June a former governor of Santa Cruz denounced improprieties in oil contracts, while the economy minister, Felisa Miceli, was forced to account for a bag allegedly containing $240,000 found in a cupboard in her office (only $60,000, she said, and intended for a property purchase, though she has not provided details).

In addition, the government has started losing local elections. All this means that the presidential contest ought to be far more open than had seemed likely a few months ago. But the first couple's biggest advantage is the weakness of the opposition, and its inability to unite behind a single candidate.

Roberto Lavagna, who was sacked as economy minister in November 2005, can claim to be the architect of economic recovery. He criticises price controls and the government's closeness to Hugo Chávez's Venezuela, but he appeals to the same voters as Mrs Kirchner. “I'm not so much opposition as a better alternative,” he says. Elisa Carrió is a leftish anti-corruption campaigner who is trying to move to the centre. Nobody else gets into double figures in the polls. Mauricio Macri, a conservative congressman, might, but he has just been elected as mayor of Buenos Aires.

Mrs Kirchner can try to counteract recent difficulties by offering change as well as continuity. Mr Kirchner gave priority to soothing the angry streets rather than foreign investors. An awkward personality, he seems entirely uninterested in foreign affairs. “He needed to be more populist, she's going to be more internationalist,” says Nicolás Ducoté of CIPPEC, a Buenos Aires think-tank. “She likes seducing investors, she'll go to Davos.” Mrs Kirchner has spent much of this year abroad. She would almost certainly seek to strengthen Argentina's ties with the United States and Europe, and distance it from Venezuela.

The next president will face some difficult economic decisions, as growth starts to slow and distortions mount. Mr Kirchner is used to governing with almost untrammelled power, whereas his wife is by nature a negotiator, notes Sergio Berensztein, a political scientist at Torcuato Di Tella University in Buenos Aires. She appeals more than her husband to the middle class, whose worries include crime.

Since candidates do not have to register until September 8th, some Argentines reckon that Mr Kirchner might yet run himself if his wife's candidacy founders. But that seems unlikely. If she wins, one intriguing question is what role Argentina's first man might play. Some say he would devote himself to forming a new centre-left party to replace the amorphous Peronists (and to run again in 2011). But that would almost certainly cause problems for his wife.

Under Mrs Kirchner, Argentina would look more modern and less introverted. But just how much the substance of policy—a relatively interventionist economic stance and a presidency that rules through patronage—might change is less clear.

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Mexico

Boring on

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A bad loser's tale

Get article background

“THE art of losing”, wrote Elizabeth Bishop, an American poet, “isn't hard to master.” Tell that to Andrés Manuel López Obrador, who narrowly lost Mexico's presidential election last July. A year on he is still whingeing: in print, in the street and in a late-night television programme. But fewer Mexicans are listening.

After a partial recount, Mexico's electoral authorities found that Felipe Calderón, a moderate conservative, had defeated Mr López Obrador, a populist leftist, by 233,831 votes, or just 0.6% of those cast. Mr López Obrador still disputes that: he claims he won by 2m votes, but he has yet to produce any serious evidence. Last November he declared himself “legitimate” president. None of this has stopped Mr Calderón from governing effectively.

Mr López Obrador continues the argument in a book published this week, “La mafia nos robó la Presidencia” (“The mafia stole the Presidency from us”). Its author sees conspiracies everywhere. The introduction of daylight saving time in Mexico was, we are told, a plot to make life easier for the stock exchange. When Mr López Obrador was mayor of Mexico City one of his top officials was caught on film in Las Vegas gambling with city money. This was apparently a set-up to smear him.

Since he led the polls for most of the campaign, defeat understandably came as a shock. It was mainly due to his own mistakes, such as not turning up for a first candidates' debate—because, he now explains, the media would have painted him as the loser. He sees himself as a victim of Mexico's establishment, although he and many of his aides were stalwarts of the Institutional Revolutionary Party during its seven decades of authoritarian rule. He denounces Mr Calderón, a lifelong democrat, as a “neo-fascist”.

Only 61% of those who voted for Mr López Obrador say they would do so again, according to a poll for *Reforma*, a newspaper. That means that he still has a hard core of supporters. But backing for him in his centre-left Party of the Democratic Revolution (PRD) is less than lukewarm. Contrary to his injunction to boycott the “usurper” president, the party is acting as a responsible opposition, negotiating with Mr Calderón on legislation.

On the anniversary of the election, Mr López Obrador held a protest rally in the Zócalo, the Mexico City square his supporters occupied for weeks last year. The rally was large, but much less so than those of the past. Five of the PRD's state governors were absent. The sixth, Marcelo Ebrard of Mexico City, attended but sat far from Mr López Obrador and didn't speak.

A dozen years ago Subcomandante Marcos, the ski-masked leader of the Zapatista guerrillas, was a national figure in Mexico. Today he has influence only in a small part of Chiapas state and in a few campuses in the United States and Europe. He failed to adapt to Mexico's increasingly robust democracy. Mr López Obrador appears to be following a similar path.

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Cuba

Come again

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Plans to revive flagging tourism

WHEN Soviet subsidies abruptly disappeared in the early 1990s, Cuba's communist government saw in tourism an alternative source of foreign currency. The number of visitors rose swiftly, to over 2.3m in 2005, producing revenue of some $2 billion. Now this rapid growth has stopped: last year tourist arrivals fell by 4.3%, and the slump intensified at the start of this year.

Cuban officials publicly blame the drop on the United States. George Bush's administration has cut family visits by Cuban-Americans, from once a year to once every three years, and has been zealous in enforcing a ban on travel to the island by other Americans. But in private the officials admit that this is one problem for which the enemy to the north cannot take all the blame.

Cuba has one of the lowest rates of return visits in the travel business. Most visitors go there once, enjoy the colonial architecture and pristine beaches, and never go back. Tour operators say they get many complaints about poor food and indifferent service.

Many tourists also find Cuba expensive. To buy anything they are obliged to change their money into “convertible pesos”, which are worthless outside the island. In 2005 President Fidel Castro revalued the “convertible peso” by 8%. That did nothing for tourism. Canadians, for example, do not visit because “they love Cuba” but because it is cheap, says one industry source.

Mr Castro seemed to see tourism as nothing more than a necessary evil—and less needed now, thanks to aid from Venezuela and high prices for nickel exports. But his brother Raúl, who took over from him last year when Fidel had intestinal surgery, seems to disagree. Raúl Castro has long headed the army, which runs many tourist businesses.

The government says it will spend $185m over the next three years to improve the island's few marinas and golf courses. There are plans for some 50 “boutique” hotels. Aircraft landing fees, among the highest in the world, are to be cut by 20%. Foreign investors, who only last year were receiving strong signals that they were not required, are now being encouraged to submit proposals.

“This is Raúl at work,” says a Western diplomat in Havana. “Less talk, more action.” The action may go further. One idea is to repeg the “convertible peso” at par to the dollar. Another is to let Cubans stay at tourist-only hotels. That would fill empty beds, and assuage resentment at “tourist apartheid”. If such measures happen, they would be the first clear sign that Raúl is more than just his brother's keeper.

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Mercosur

A turning point?

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A falling-out with Hugo Chávez could be good news for a paralysed trade group

THE most notable thing about Mercosur's presidential summit held in Asunción, Paraguay's capital, on June 29th, was an absence—that of Hugo Chávez. Venezuela's strident left-wing president chose to spend last weekend in Moscow and Iran, shopping for arms and for friends. Without him, the Mercosur meeting was much quieter. But South America's biggest trade block, beset by bickering and backsliding, is still a long way from regaining the importance it had in the 1990s.

Back then, trade between the four founding members—Argentina, Brazil, Paraguay and Uruguay—was an engine of economic growth. Then came traumatic devaluations and economic stagnation. Total trade within the block recently overhauled its previous peak. But it is dwarfed by the growth of the members' exports to the rest of the world (see chart).

One reason for that is the surge in world prices for South American soya, grains and minerals. The second reason is that Mercosur is drifting. It has failed to implement a pledge to create a genuine customs union, with a common external tariff and free trade within the block. And it has allowed its rule book to be riddled with exceptions.

The upshot is that barriers have multiplied. For example, Argentina's government has tacitly backed the protestors who have blocked the main road bridge to Uruguay for months on end, and has recently backed banana growers who object to the import of cheaper Paraguayan fruit. Rather than use Mercosur's dispute-settlement machinery, it has filed complaints against Brazil at the World Trade Organisation. Paraguay has failed to clamp down on widespread smuggling of Chinese-made electronic goods. And Brazil's partners object to the tax breaks given by its state governments to attract investment.

The left-of-centre governments that are in charge (except in Paraguay) talk up political and energy co-operation, though recently they have achieved relatively little of either. They have also favoured widening the group, rather than its deepening into a single market. Chile and Bolivia became associate members in the 1990s, entering into free-trade agreements with Mercosur but not accepting its common external tariff. Last year Mr Chávez's Venezuela was swiftly accepted as a full member, at the urging of Argentina's president, Néstor Kirchner, and his Brazilian counterpart, Luiz Inácio Lula da Silva. Now the left-wing presidents of Bolivia and Ecuador want their countries to join too.

Marco Aurélio Garcia, Lula's foreign-policy adviser, claims that Mercosur has in fact made “great progress” in integration, but that this is not yet visible because of the intense social, political and economic change taking place in much of South America. Others look at Mercosur and see merely irrelevance and disarray. “It's become just a political block, not a trade block,” grumbles Marcos Jank, a trade specialist in São Paulo.

Mr Chávez's absence from Asunción may, however, mark a turning point. He took umbrage at a resolution passed by Brazil's Senate criticising his recent silencing of the main opposition television channel. Brazil's Congress (like Paraguay's) has yet to ratify Venezuela's entry to Mercosur, and after insults from Mr Chávez is unlikely to do so soon. That leaves Venezuela in the oxymoronic situation of being a “full member in process of accession”. Mr Chávez said this week that he would withdraw Venezuela's application unless it was approved in three months. He seems interested in Mercosur chiefly as a political platform. Free trade would expose the big inefficiencies engendered by his statist economic policy.

Mercosur has plenty of other problems. They start with the big difference in size and government policies among members. Under Mr Kirchner, Argentina's priority has been to protect inefficient but labour-intensive industries as it recovers from socio-economic collapse in 2001-02. Smaller Uruguay and Paraguay complain that the group has done little for them.

Brazil has made periodic attempts to “relaunch” Mercosur. It is the main contributor to a $100m development fund that is seen as a modest copy of the European Union's regional funds. Its diplomats say they want fewer trade restrictions and, at last, a common customs code (at present each country collects its own customs revenue, and tariffs are levied on goods from outside the block each time they cross a border). But in Asunción implementation of this was postponed yet again.

Mercosur's paralysis is beginning to exasperate businessmen. Though long protectionist, Brazil's industrialists are nowadays keen to seek new markets. Paulo Skaf, of São Paulo's industry federation, notes that although Brazil exports raw materials to China, 70% of its manufactured exports are sold within the Americas. He complains that Brazil is losing markets because the United States has struck preferential trade deals in the region.

Brazil's decision to walk out of a recent meeting of the Doha round of world-trade talks may owe more to pressures from allies than at home. If Doha does fail, some diplomats see a chance of reviving stagnant talks on a trade agreement between Mercosur and the EU (which this week held its first-ever summit with Brazil). That in turn might push Mercosur to respect its own rules. Some Brazilians even talk of trying to resume trade talks with the United States, broken off when negotiations for a Free-Trade Area of the Americas collapsed in 2003.

Since Lula's re-election last October Brazil's foreign policy has seemed more pragmatic and less driven by leftist ideology. Lula has not concealed his irritation with Mr Chávez's antics. There is no sign yet that Brazil's president wants a clear breach with his oil-rich friend and rival. But if Mr Chávez's brinkmanship backfires, that might just be the best thing that has happened to Mercosur for years.

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Japanese politics

The unbearable weight of Shinzo Abe

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Claudio Munoz

Uncertain times, and even a political bouleversement is not out of the question

Japan's politics

AS THE up-and-coming politician sat down to dinner, he asked if it was at all obvious he had been wearing make-up. He then quickly explained that he had just come from having his photograph taken for a campaign poster. What on earth for? The elections due on July 29th are for half of the 242 seats in the upper house of the Diet (parliament), for which the campaign officially began this week. Yet this politician from the ruling Liberal Democratic Party (LDP) holds a seat in the lower house, won in the 2005 landslide when voters backed the reformist agenda of Junichiro Koizumi, the maverick prime minister of the time. The poster, the politician replied, was a sensible precaution. He and many of his colleagues had privately concluded that so low are the fortunes of the current prime minister, Shinzo Abe, that he may yet call a snap general election on the same day as the upper-house polls.

The dinner was just before the latest fiasco for Mr Abe's administration. Over the weekend his defence minister, Fumio Kyuma, made remarks that appeared to justify the United States' dropping of atom bombs on Hiroshima and Nagasaki at the end of the second world war, killing over 200,000 civilians. Never mind that Mr Kyuma's analysis is shared by some mainstream historians: that the bombs hastened Japan's surrender, so denying the Soviet Union a massive land-grab of the northern half of Japan. Mr Kyuma trod on hallowed ground that, uniquely, unites the politics of Japan's right and left: for historical revisionists and anti-war pacifists alike, the horror of the atom bombs marks Japan for ever as victim.

Unhappily for Mr Abe, Mr Kyuma's constituency is in Nagasaki. There the LDP is fighting the opposition Democratic Party of Japan (DPJ) for an upper-house seat. It is on the southern island of Kyushu, traditionally a conservative bastion. But the LDP's electoral machine is now weakened, and the outcome of the race is in doubt. Mr Kyuma resigned on July 3rd.

Three ministers have now gone during Mr Abe's nine months in office, including a suicide. A fourth, Hakuo Yanigisawa, the health and welfare minister, is certain to go. Not only has he outraged Japanese women by referring to them as “birth-giving machines”, but he oversees a pensions agency which has admitted to losing 50m pensions records. This pensions fiasco, more than anything, is what has undermined Mr Abe's fortunes. On July 2nd a poll in the *Asahi Shimbun* showed approval ratings for his government fall below 30% for the first time, down by more than half since he took office.

To keep an upper-house majority, the LDP had counted on its coalition partner, New Komeito, holding the

12 of its existing seats that are being contested, while winning at least 52 itself. But now New Komeito is alarmed at being tainted by the LDP's woes. Soka Gakkai, the 8m-household-strong Buddhist organisation behind the party, with a pacifist streak, was one of the first to call for Mr Kyuma's resignation.

Should Mr Abe find himself a few seats short, he might be able to persuade two or three from the DPJ to jump the aisle, and, bizarrely, he might strike a deal with the tiny People's New Party. It is made up of anti-Koizumi former LDP members, and wants Alberto Fujimori, a former Peruvian president now in exile in Chile, to run from there as a candidate in one district. In theory Mr Abe can stumble on without a majority: the lower house, which the LDP coalition controls, picks the prime minister.

If the loss is big enough to force Mr Abe's resignation, though, things get interesting. The likeliest outcome would be a race to lead the LDP and hence the country. Probable contenders are Taro Aso, the foreign minister, and Sadakazu Tanigaki, a former finance minister, both leaders of small factions. Yet the former shares the conservative agenda that has done Mr Abe few favours, and the latter favours an early tax hike, which is hardly popular with voters. So a younger challenger may come forward, such as Nobuteru Ishihara, the LDP's deputy secretary-general.

A bigger loss, and it becomes more likely that the LDP will choose a caretaker leader and then call a general election. But there is another possibility, says the LDP politician with the make-up: a one-in-five chance of a shock to Japan's political system that smashes the main parties as they are currently constituted and remakes them into something wholly new.

He points out that for all the LDP's troubles, the DPJ has proved inept at profiting from them. The party is a collection of unlikely bedfellows from right and left. Its leader, Ichiro Ozawa, an increasingly ineffectual bully who spent most of his career in the LDP, dismays younger reformists in his party. These huddle with LDP members, the cosmetically enhanced politician included, who resent the resurgence under Mr Abe of grubby factional politics and backbenchers with the power to thwart market-oriented policy. Modernisers in both parties tend also to support a more muscular role for Japan abroad, which means revising the pacifist constitution. So they talk of uniting to form a party based on policy more than personality, while the reactionary rumps of the LDP and the DPJ, along with New Komeito, become the grumpy old opposition.

Fanciful? Certainly, and it has been imagined before. But in volatile times, imaginings sometimes come true.

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Papua New Guinea

A feast for the voters

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Voters get their five-yearly treats in a poor and struggling Asian democracy

AFP

Plenty of promises to choose from

STANDING for Papua New Guinea's parliament is a ruinously expensive business, so it is remarkable that, in such a poor country of fewer than 6m souls, so many candidates put themselves forward, collectively diminishing their chances of success. In the general election, whose voting began on June 30th and is due to continue until July 10th, an average of 25 candidates is standing for each of the 109 seats.

Betson Usereko, who runs a motor workshop in Henganofi district near Goroka, a main town in the highlands, faces even stiffer odds. He is standing against 39 rivals, including the justice minister. Mr Usereko's opposition group, the PNG Conservative Party, has a clear policy platform: free education, tax cuts and incentives for the mining industry. But voters in PNG care little for parties or policies. What they most expect from campaigners, he laments, is lavish hospitality.

In the highlands the richest candidates throw a traditional Melanesian feast called a *mumu*, in which huge quantities of food, including whole pigs, are baked on hot stones placed in long trenches. Less wealthy hopefuls open “campaign houses”. The food is less extravagant but the beer flows freely. Parties may help with campaign expenses but candidates bear most of them, hoping that the fruits of office, in the unlikely event they are elected, will more than recompense them.

Voters are fickle as well as demanding: in each of the six elections since PNG won independence from Australia in 1975, at least half of the sitting members lost their seats. In 2002's chaotic polls, marred by violence and ballot-tampering, a record three-quarters of MPs were changed. Scandals and political infighting have often caused governments to fall mid-term. The present prime minister, Sir Michael Somare—who had a previous stint in the job at the time of independence—is the first since then to complete a full five years.

Early in Sir Michael's government the public finances were brought under control, boosting growth and cutting inflation. But last year he sacked his finance minister, Bart Philemon, the driving force behind the reforms. Mr Philemon and his New Generation Party are now among the main contenders against Sir Michael and his National Alliance. But with 34 parties (and almost 1,500 independents) contesting seats, the next government will be another wobbly coalition. The largest party may be well short of a majority, so vote-counting is likely to be followed by weeks of political horse-trading.

Like everything else in PNG, politics is dominated by the unstinting loyalty that individuals are expected to show to their clan and their *wantok* (group of clans speaking the same one of PNG's astonishing 840 languages). Clashes between such groups are the cause of much trouble, especially in elections. In the

hope of avoiding a repeat of 2002's bloodshed, preferential voting is being tried this time. Voters are invited to mark their first, second and third choices. This, it is hoped, will force candidates to set aside *wantok* rivalry and appeal to a broader electorate, so as to win second and third preferences.

During campaigning and, so far, during polling, the new voting system does indeed seem to be keeping trouble down, says Thomas Webster, the director of the country's National Research Institute. But he fears that the counting could see clashes. It will drag on for weeks because of the new system. The longer it takes to reach a result, the longer losing candidates will have to invent complaints.

One likely source of gripes is the new voting register. This has been drastically cleaned up since 2002, when it was padded with vast numbers of non-existent “phantom” voters. Many remain on the roll but in some constituencies groups of voters are complaining of being turned away from polling-booths because their names are missing from the list.

Still, so far voting has been relatively calm, though storms delayed the arrival of ballot papers and boxes in some of PNG's provinces and far-flung islands. Papua New Guinea's people grumble about the flaws in their democracy but they show great enthusiasm for taking part in it, as voters as well as candidates.

What PNG's voters need, though, is more than just a few treats once every five years. Government at all levels is deeply inefficient and riddled with corruption. Though annual economic growth has picked up to around 4.3%, that is barely more than the rate of population growth, so income per head is stagnant. The country has huge potential for mining, agriculture and forestry but its government lacks the capacity to manage these sustainably. An HIV epidemic is sweeping the country but, so far, few sufferers are receiving anti-retroviral drugs. Schools, health clinics and roads have decayed, despite the billions of dollars that Australia, by far the largest donor, has pumped into its former colony in recent years.

All that said, nobody in PNG says democracy has failed and no one hankers for a strongman. Papua New Guineans are much poorer and have had a far shorter experience of independent government than most of their Asian neighbours. Yet they understand remarkably well that, for all its faults, democracy is less bad than the alternative—and that they have no choice but to make a go of it.

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India's Sikhs

Heresy and history

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Dangerous tensions in Punjab

Get article background

PLAYING politics with religion is dangerous anywhere but nowhere more so than in the north Indian state of Punjab, homeland of the Sikhs. In 1984 it led to the assassination of Indira Gandhi, India's prime minister, by her Sikh bodyguards. Six years earlier Mrs Gandhi had used the politics of religion to benefit her Congress party in Punjab. Years of violence followed. There are now fears that history may be about to repeat itself.

In May violent clashes lasting several days broke out between mainstream Sikhs and followers of the Dera Sacha Sauda, a powerful group that had supported Congress in state-assembly elections two months earlier. The Sikhs' main political party, the Akali Dal, which won the elections, encouraged protests against the Dera. The violence followed what mainstream Sikhs saw as an act of heresy by the Dera's charismatic leader, Ram Rahim Singh. He dressed up as Gobind Singh, the Sikhs' most revered 17th century guru. The Akali Dal government seized on the event, hoping to reduce the Dera's political clout in important constituencies.

Religious leaders at the Golden Temple in Amritsar, the Sikhs' holiest shrine, and the centre of the troubles in the 1980s, demanded an apology from Mr Singh. They rejected both an expression of “regret” and an “apology for humanity's sake”. On June 27th the state government raised the stakes by authorising the police to arrest Mr Singh for hurting Sikh sentiments. The aim was to stop him entering Punjab from his base in the neighbouring state of Haryana, and so to make it harder for him to build up an anti-Akali Dal political movement. Mr Singh was then allowed to stay free on bail until August 6th. This has lifted the threat of widespread violence before then. But many rural areas remain tense.

A *dera* is a temple that carries out social and educational activities. There are thousands in Punjab. They often wield local political influence, but Mr Singh's has outgrown this. It is said to have some 400,000 followers, both Sikhs and members of the Hindu majority, mainly among the poor, illiterate, and lower castes. Its compassionate message has growing appeal at a time when Punjab's economy, once one of the most successful of any Indian state's and still among the richest, is growing at about one-third of the 9% annual rate achieved by India's booming economy as a whole. Other states are winning more industrial investment, while over-farming and a falling water table crimp prospects for Punjab's most important agricultural crops: wheat, rice and sugar-cane. Even the state finance minister has admitted the economy is “moving southwards”.

The worry is that economic hardship could combine with the growing Sikh-Dera tensions to fuel sectarian violence. For some observers the tension recalls the late 1970s. Then accusations of sacrilege against another breakaway group, the Nirankaris, led to the emergence of a charismatic militant leader, Jarnail Singh Bhindranwale, and the bloody ensuing conflict. Three decades on, both state and central governments are keenly aware of the risks. But the Akali Dal and Congress are still playing their dangerous game.

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Pakistan

A mosque red with blood

Jul 5th 2007
From The Economist print edition

Why did it take the government so long to assert its authority?

Get article background

AP

A nice day at school, dears?

A VIOLENT battle with Islamist extremism was fought this week in the heart of Pakistan's capital, Islamabad. On July 3rd the army besieged the Lal Masjid, or Red Mosque, and its adjoining *madrassa* for girls. A radical cleric and thousands of followers, some of them armed, had since January been resisting the government's authority. In the ensuing clashes, at least 16 people died and dozens were injured. Thousands of inmates surrendered. As *The Economist* went to press, an unknown number—in the hundreds—stayed on. The cleric, Abdul Aziz, had been caught trying to escape, cloaked in a burqa.

To a government presenting itself as a bastion of “enlightened moderation”, the radical mosque had been a long and embarrassing provocation. The mullah's followers had resisted eviction from land they had illegally encroached on. They had occupied a children's library and kidnapped women. They had given the government a deadline to close brothels and music shops and tear down billboards depicting women. And they had threatened suicide-bombings should the government dare to use force.

The surprise is not that the government eventually did so but that it took so long. One reason was the risk of a bloodbath, threatening so many young women. General Pervez Musharraf, Pakistan's president, had added credence to the threats of suicide-bombings by saying the mosque sheltered militants linked to al-Qaeda. But that only made his government—a vital American ally in its fight against al-Qaeda—seem even more perverse in tolerating the mosque.

Another explanation is that Abdul Aziz and his brother, also a cleric, had important connections. Their father, who was given a piece of land for the mosque in the 1980s, used to work for the Inter-Services Intelligence, Pakistan's powerful spookery. This may explain why he and his sons were for so long allowed to get away with grabbing others' land to expand their *jihad* school.

Some Pakistani commentators have also pointed out that the radical mullahs have had their uses for General Musharraf. They lent substance to the threat of Islamist extremism he uses to justify his lack of a true democratic mandate. They also served to divert attention from a nationwide protest movement against his attempt to dismiss the chief justice.

In this uncharitable view, that movement's recent sputtering helps explain this week's tougher approach. But also, the zealots went too far. Last month they kidnapped (and then freed) seven Chinese people from a massage parlour they said was a brothel. China—an “all-weather” friend to all Pakistani governments—was appalled. Despite the likely casualties, attacking the mosque was now even more clearly in the national interest. So much so that cynics wonder who came up with the deranged idea of kidnapping Chinese citizens.

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North Korea

Pyongyangology

Jul 5th 2007 | SEOUL
From The Economist print edition

The state the North Korean regime is in

Get article background

WHAT does the world really know about the regime of Kim Jong Il, which appears ready to yield to foreign pressure and bribes to close down the reactor at Yongbyon that has provided enough material for a handful of nuclear devices? The answer, despite defectors' tales and the best efforts of Western intelligence agencies, diplomats and academics, is still: much less than the known unknowns. That Mr Kim runs a vile regime is not in doubt, with North Korea's 20m-odd people the victims of backwardness, malnutrition and political repression. Yet so secretly does it conduct its affairs that speculation is easier than analysis.

Some known knowns. Since the mid-1990s North Korea's unique brand of Stalinism—even more horrifying than those tried elsewhere—has entered a process of slow disintegration. Famine during the 1990s is reckoned to have killed perhaps a tenth of the population. Only with difficulty can survivors still believe in the long-promised socialist paradise, or find fresh reservoirs of gratitude for Mr Kim.

Foreigners living in Pyongyang report a change in attitudes. Once in awe of authority, people now defy it. They break petty rules: sitting on the moving rail of the escalator; smoking beneath no-smoking signs; and blocking traffic by selling furniture in the streets, to the frustration of the white-gloved traffic ladies. More seditious still, people are breaking the seal on their radios that keeps them tuned only to the state frequency.

Another measure of changing attitudes: in bus queues or at sweet-potato stands, people are readier to chat to foreigners than they were just a few years ago. Signs of petty capitalism and informal markets, once unheard of, are everywhere. Crime is on the rise too, and where there are black markets, mafia-type protection rackets probably follow. Chinese lorry-drivers complain of highway banditry, as gangs jump on to the back of slow-moving lorries and pull off goods.

Despite Stalinism's decay, Andrei Lankov of South Korea's Kookmin University suggests that the regime, which during the famine may have faced collapse or military rebellion, now actually feels more sure of itself. It has restricted the operations of foreign aid organisations. And it has largely recentralised the distribution of food and other essentials, after the system broke down during the famine. So all the rewards in the form of cash and commodities that North Korea expects to reap from its nuclear diplomacy could easily be used to reinforce the command economy, and buy loyalty.

In recent months a crackdown has taken place along the porous border with China. The law is once again being rigorously applied to North Koreans caught crossing illegally. The punishment is five years in prison camp. There is little sign that the gulag is any less brutal: a report by Christian Solidarity Worldwide, a human-rights group, pieced together what is known from defectors' accounts and satellite imagery. It put the prison population at 200,000, with 500,000-1m having died there over the years.

As for the elite, what little is known suggests a regime riven by bickering. It appears to have problems filling government posts: the job of foreign minister has been open for months. In April the prime minister was replaced by Kim Yong Il, who analysts suspect may be more hardline. Political advisers from the army seem again to have growing influence. For a while after the six-nation agreement in February on North Korea's denuclearisation, the usual officials in military uniform suddenly stopped accompanying Mr Kim in public; Mr Kim also visited relatively few military sites compared with civilian ones. The uniforms are now back.

In May Mr Kim himself stopped appearing in public, prompting speculation about his health, with rumours of diabetes and heart problems. His health is perhaps the regime's most closely guarded secret, so all this is pure conjecture. But it is known that he is 66 and was once a heavy smoker and drinker.

If Mr Kim was frail, he has bounced back, appearing this week with China's foreign minister. Still, inevitable gossip has been fanned about succession in this communist dynasty. Mr Kim's two younger sons, in their 20s, have started appearing in public with their father for the first time since their mother died in 2004. Mr Kim's eldest son (by an earlier mistress), Kim Jong Nam, 36, had been written off as a potential successor after the embarrassment of being caught entering Japan with a fake passport to visit Tokyo's Disneyland. He has recently been living in Macau, but this year popped back for his father's birthday. Some of the fuss that North Korea made in the six-party talks about funds frozen in a Macau bank may have been for his benefit.

South Korean analysts, in particular, predict a collective leadership after Mr Kim's death, and the regime's indefinite continuation. But an orderly succession cannot be taken for granted. And if the regime were suddenly to collapse, one cast-iron certainty is that the countries that would have to deal with the mess—chiefly South Korea, the United States and China—are wholly ill-prepared.

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China and its Catholics

Cardinal principles

Jul 5th 2007 | BEIJING AND HONG KONG
From The Economist print edition

An historic chance of reconciliation with Catholics, if not democrats

Get article background

AFP

Zen and the art of anger management

IF THEY were seeking to justify their deep suspicion of Catholics, Chinese officials would have felt vindicated. On July 1st tens of thousands of Hong Kong citizens chose to mark their first decade under Chinese rule by marching through the streets to demand more democracy. Among them was Hong Kong's top Catholic, Cardinal Joseph Zen. But once easily riled, China is learning to swallow its anger.

So too are some of its critics. Pope Benedict, whose church has long upbraided China for its suppression of religious freedom, is now trying to make friends. In a rare and lengthy letter to Catholics in China last week the pope wrote in conciliatory terms about China's state-controlled Catholic church and bishops in it who have been appointed without the Vatican's approval. He also stressed that the church in China had no mission to change the country politically.

Ten years ago, when the British left Hong Kong, many Chinese officials expressed fears that pro-democracy politicians would plunge the territory into turmoil. They worried that they would also step up pressure on the Communist Party to change its dictatorial ways. But much has changed. After ten years of rapid economic growth, and with little social unrest, the party today seems less plagued by thoughts of its possible sudden demise.

There were far fewer pro-democracy marchers this year than in 2003, when hundreds of thousands took to the streets on July 1st in what has since become an annual ritual. The Hong Kong Transition Project, an academic group studying the impact of China's takeover, believes China's image has improved. In a survey in April it found nearly 70% of 800 respondents were satisfied with China's management of Hong Kong's affairs. Just before the British withdrawal, only 45% thought China was handling things well.

The demonstration was part of a well-oiled series of events marking the ten-year anniversary that day. As dragon-dancers and marching bands wound up their street celebrations, the democrats began their protest. They stuck to an authorised route finishing outside the Hong Kong government's headquarters. Few in Hong Kong believe the local authorities have much say in the territory's political development. But mainstream democrats diplomatically refrain from protesting outside the central government's local offices.

Such restraint allowed China's president, Hu Jintao, three days in Hong Kong largely untroubled by signs of dissent—he left just before the march. Mr Hu's duties included swearing in Donald Tsang, knighted by the British and a devout Catholic, for another five years as Hong Kong's chief executive. Also sworn in, as the new financial secretary, was John Tsang (no relation), a former private secretary to Hong Kong's last British governor, Chris Patten. Ten years ago China was nervous about giving top jobs to those with colonial links. Now it is far less concerned. Among those deployed to marshal the demonstration was a sprinkling of British officers.

Cardinal Zen's participation was condemned by a senior official from China's state-controlled Chinese Catholic Patriotic Association. The official, Liu Bainian, was quoted by Hong Kong's *South China Morning Post* as asking how the Vatican could win China's trust if it appointed people like the cardinal.

China's response to the pope's letter has been muted, which Cardinal Zen sees as a good sign. In fact, China may well be quietly pleased. One of the letter's aims was to discourage Catholics in China from shunning the state-sponsored church. This was established in 1957, six years after China severed ties with

the Vatican and expelled foreign priests. Many local priests were imprisoned. Several are still in jail because of their opposition to the government church. China says it now has about 5m Catholics, but there are believed to be many millions more who worship in “underground” churches with priests not recognised by the state. The pope's letter said Catholics could worship in state churches, even if their priests had no links with the pope, if finding Vatican-approved clergy caused “grave inconvenience”.

One of the main obstacles to improved relations between China and the Vatican has been the Vatican's insistence that it appoint bishops. China objects, fearful of losing control of the church. But there are signs of a possible compromise. In recent years it has often allowed names to be submitted to the pope in advance for his secret approval before its “official” ordination takes place. Last year, however, China made three appointments without Vatican clearance. Many believed this was partly prompted by Pope Benedict's decision to make Joseph Zen a cardinal in February 2006. Cardinal Zen, who dismisses any link with his appointment, described the ordinations as “acts of war”.

The pope's letter was more tactful. It said some bishops who had been ordained under pressure without the Vatican's approval had subsequently asked for the pope's acknowledgement. He said he had granted this, taking into account “the sincerity of their sentiments and the complexity of the situation”. The letter said the “very small number” of bishops who had not asked for or received the pope's blessing were “illegitimate”. But they were still considered “validly ordained” as long as it was by validly ordained bishops.

Taiwan vaut bien une messe

China has strong motives to work out a deal. A rapprochement with the Vatican would do a lot to improve its human-rights image in the West. It would also deal a huge diplomatic blow to Taiwan. Last month Costa Rica switched diplomatic recognition from Taipei to Beijing, leaving Taiwan with just 24 states that still officially recognise it. The Vatican is by far the most influential of them.

For all Cardinal Zen's misgivings, China is not in a pugnacious mood. As it prepares to host the Olympic Games in Beijing next year, it is anxious to project a softer image. In Hong Kong Mr Hu, normally stiff and uncharismatic, briefly played table-tennis with a 13-year-old in front of television cameras.

China has railed against a proposal by Taiwan's president, Chen Shui-bian, to hold a referendum next year on whether Taiwan should apply to join the UN under the name Taiwan instead of the island's official title, the Republic of China. (To China, this sounds too much like a cutting of links with the mainland.) But so, in more diplomatic terms, have the Americans, who have much to lose if the Chinese get truly angry. For now, they are not.

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The Palestinians

The labours of Fayyad

Jul 5th 2007 | RAMALLAH
From The Economist print edition

Reuters

The Palestinians' prime minister has a last chance to save the day

Get article background

HE HAS always been a restive type, but now Salam Fayyad's words come in agitated, freewheeling floods, as if he has drunk about 15 cups of coffee. Perhaps he has. Two weeks into his new job, the prime minister of the Palestinian Authority (PA) seems acutely aware of the political and moral tightrope he is walking, and that he may have mere days to rescue the vision of a Palestinian state in Gaza and the West Bank from oblivion.

Mahmoud Abbas, the Palestinian president, fired the coalition government led by Hamas and appointed Mr Fayyad after the Islamist party's militias took control of Gaza last month in a showdown with forces loyal to Mr Abbas's Fatah. The last time Mr Abbas was Mr Fayyad's direct boss was in 2003, when they were prime minister and finance minister under Yasser Arafat's presidency.

Then as now, Israel had been withholding tax revenues that it collects on the PA's behalf, and foreign donors were threatening to cut off funds. Then as now, Fatah grandees grumbled that Mr Fayyad had been imposed by America. Today his reputation precedes him: Israel has agreed to start restoring some $560m in arrears since Hamas won power in elections 18 months ago, and the donors have lifted a boycott on the PA.

But this time the stakes are higher. Mr Abbas, along with Israel, America and some of their allies, also wants to loosen Hamas's grip on Gaza. Israel aims to improve life in the West Bank, where Fatah is much stronger, but let only humanitarian aid into Gaza, whose economy is driven by commercial trade. Gaza's border crossings are closed to all but humanitarian supplies, and Israel's customs service has blocked overseas imports destined for Gaza, in effect sequestering some 1,300 shipping containers at Israeli ports, according to Majdi Khalil of the Palestinian Shippers' Council. Yet if the strategy fails to marginalise Hamas—and even some Israeli officials are sceptical that Hamas will relinquish control, let alone be removed by force—the two parts of a putative Palestinian state could remain split.

Mr Fayyad's government is supposed to work for all Palestinians, but, he says, “we take into account the need for goods to get to Gaza without undermining the other guiding principle of policy, which is not to legitimate Hamas.” That is an agonising balancing act, and he clearly knows it; a suggestion that he is trying to “squeeze” Gaza is met with hot protest.

Mr Fayyad is no shrinking violet. He imposed financial reforms on an unwilling Arafat by making the banks channel funds away from other ministries to his and forcing the security chiefs to accept salaries into bank accounts instead of in envelopes. This week, as the PA started paying its employees full wages for the first time in months, he suspended the salaries of some 20,000 people hired since his last stint as finance minister ended in late 2005. One-third are security staff appointed by Fatah before Hamas took power, but the Islamists are portraying it as an attack on them.

That, and what Gazans will perceive as his complicity in Israel's economic throttling of them, pose a challenge to the “legitimacy” that is Mr Fayyad's current favourite word—even more so given that Mr Abbas must find a legitimate way to keep the new government in place after its 30th day without the obligatory ratifying vote from the Hamas-dominated legislature. Hamas's military wing has reportedly called Mr Fayyad a “traitor”, prompting him to beef up his security detail.

Another big challenge will be to impose law and order in the West Bank, not only against possible insurrection by Hamas, but against armed militias loyal to other parties (including Fatah) and criminal gangs. Mr Fayyad says his watchwords will be “security, security, security”, but even his fans are sceptical. “If an emergency government cannot take care of security in the West Bank, how can they convince me that they will do it in Gaza?” asks Abdul Malik Jaber, the head of Paltel, the telecoms monopoly and a self-described “good friend” of the prime minister.

That test is even harder now that Hamas has secured the release of Alan Johnston, a BBC journalist held for 114 days by a criminal family in Gaza (see picture above). Although the powerful Dughmush clan got to keep its weapons in return for giving up Mr Johnston, the Islamists now look like they rule the roost in Gaza. Mr Fayyad and his precarious government will have to display a similar authority in the West Bank. It sounds like an impossible job, but as Mr Fayyad says, “This may very well be our last chance.”

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Lebanon

From crisis to crisis

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From The Economist print edition

Echoes of civil war as the country slides towards political deadlock

FOR a small country, Lebanon has a very long list of woes. So long, in fact, that even the famously resourceful Lebanese now seem stumped as to how to cope. Worse yet, the list keeps getting longer.

AP

Another political assassination, another funeral cortège—this one for Walid Eido

Last year's war with Israel left 1,200 dead and thousands more homeless. Since then, a split between the Western-backed parliamentary majority and the pro-Syrian opposition has widened into a seemingly unbridgeable chasm, raising sectarian tensions and crippling the state, even as it struggles to manage reconstruction, a $33 billion foreign debt, a looming presidential election, and a continued series of assassinations. The most recent of those, a car bombing on June 13th in central Beirut, killed Walid Eido, a pro-majority MP, and nine others. Meanwhile, a siege of jihadist guerrillas holed up in a Palestinian camp has killed more than 160 people and uprooted perhaps 30,000 refugees since the fighting began in May. And as if that were not enough, a roadside bomb on June 24th hit UN peacekeepers near the Israeli border, killing six soldiers. This has raised the spectre of an Iraq-style campaign to chase out the multinational force that has patrolled the border since 1978, and which was massively reinforced after last summer's war.

There are likely links between all these events, but theories differ as to what they are. The ruling majority, which was swept to power in a wave of anti-Syrian protests in 2005, accuses the larger neighbour of having a hand in most troubles. The alleged motives are Syria's desire to influence a UN tribunal that is to assign blame for the assassinations that have targeted Syria's foes, to foment chaos so as to allow Syria to reassert its pre-2005 role as Lebanon's power broker, and to maintain tension with Israel as a means of coaxing it to relinquish the Golan Heights, captured from Syria in 1967.

Syria's friends in Lebanon, which include the Shia party-cum-militia Hizbullah, tend to finger a combination of Israel, America and Sunni powers such as Saudi Arabia. This unwieldy consortium is said to want to squeeze Syria and its ally Iran, as part of a geostrategic game to control the region. More neutral observers agree that while Syria may indeed be fighting a covert struggle to defend its soft underbelly, the Syrians are unlikely to control any but a few of the varied groups seeking to undermine the Lebanese government. A more likely culprit for the attack on the UN force, for instance, is one of several radical Sunni jihadist groups, such as the al-Qaeda-affiliated cult currently under siege at the Nahr al-Bared camp, which abhor Shias and see the UN soldiers as part of a Christian-Zionist “crusade” against Islam.

Outside meddling certainly plays a part in Lebanon's troubles. One senior Arab diplomat who has tried to mediate between the country's factions complains that each one seems to have a foreign “uncle” ready to

veto any compromise. But much of the trouble stems from internal causes. The sectarian fragmentation that makes Lebanon the Arab world's most tolerant society also tends to generate scrappy, paranoid politics, as leaders fear that any change may favour rivals. Issues over which there is broad public consensus, such as the need to resolve political crimes, reform electoral laws and contain jihadist groups are subsumed within struggles over turf and spoils. Opposition to the current government, for instance, has been bolstered by some Christians who share the majority's loathing for Syria, but would rather ally with Syria's friends, including Hizbullah, than work as junior partners to the Sunni, Druze and rival Christian parties that form the present ruling coalition.

It was this kind of rivalry between petty chieftains that sparked a civil war in 1975. That conflict was marked by ever-shifting alliances, fragmentation of territory into fiefs and a collapse of the central state, which by the war's end in 1990 was headed by two rival claimants. Talk in recent weeks among the opposition of setting up a parallel government of its own seems to have jolted consciences, as well as sad memories. Amid signs that Hizbullah's Christian allies would balk at pushing things to such a crisis point, France, Lebanon's former colonial overlord, has stepped in with yet another offer to mediate. Perhaps the charms of Paris, where representatives from 14 Lebanese parties are to meet next week, will prove more conducive to compromise than crisis-ridden Beirut.

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Female circumcision in Egypt

A little less purity goes a long way

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The government finally bans a cruel and ancient rite

BEDUR SHAKER'S parents did what good modern parents should do. Instead of hiring a traditional midwife, or the village barber, they took their 11-year-old daughter to a doctor's clinic to have her “purified”, so as to improve her chances of a good marriage. But the routine $9 operation went tragically wrong. Before the scalpel could excise her clitoris, the girl died from the anaesthetic.

But Bedur's death late last month was not in vain. The ensuing outcry has prompted Egypt's health minister to announce a formal and absolute ban on female circumcision, more often known as female genital mutilation (FGM). Moreover, this secular ruling is being backed by the country's top Muslim and Christian clerics. The grand mufti, the most senior official issuing Islamic legal opinions, declared on television that circumcision is forbidden, repeating his words three times for emphasis.

Egypt's health authorities have talked of curbing the practice since as long ago as the 1950s. Eleven years ago, after shocking footage of one girl's suffering was aired on television, the ministry forbade doctors from performing FGM except under unusual circumstances. But the ancient rite, common in the Nile Valley and other parts of Africa, has remained particularly prevalent in Egypt. A nationwide survey carried out in 2005 revealed that 97% of married women claimed to have been circumcised.

Still, as elsewhere in Africa, there has been a slow change in Egyptian attitudes. Since 1995, the percentage of mothers who say that they support circumcision has fallen from 82% to 68%. Among educated and wealthier women, that percentage is now barely a third. But a more disturbing trend is that two-thirds of circumcisions are performed by doctors. Clearly, Egypt's medical profession has massively exploited the loophole in previous bans, which was left open due to concerns that parents would endanger their children by opting for traditional practitioners instead of trained clinicians.

A majority of Egyptians also believe FGM to be religiously sanctioned, a reflection of the power of conservative clerics who have portrayed opposition to the practice as inspired by hostility to the faith. But perhaps now, with doctors risking prosecution and mainstream clerics calling foul, the message will get through that a little less “purity” might be a bit more humane.

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South Africa

Trying to kiss and make up

Jul 5th 2007 | MIDRAND
From The Economist print edition

The ruling party has purged itself of some of its tensions—for now

Get article background

WHAT a difference a few days make. When the ruling African National Congress (ANC) opened its policy conference outside Johannesburg last week, some boisterous delegates, singing and dancing, were waving flags of support for the party's number two, Jacob Zuma, who was sacked as South Africa's deputy president in 2005. A group of teachers, who had been on strike for nearly a month, picketed in front of the meeting hall. But by the time the get-together finished, ANC delegates were all back on-message, cheering wildly for President Thabo Mbeki, and the public-service strike was over.

Reuters

Mbeki and Zuma; smiles for the cameras, knives in the back

This latest outbreak of amity and goodwill may not last long. In December the party has to choose its next leader, who will then stand an excellent chance of becoming the country's next president. The forthcoming decision has split the party. Mr Zuma's supporters are convinced that his sacking from the government, after his financial adviser was convicted for corruption, was nothing but a political move to block him from the top job. Since then he has been acquitted on charges of rape, though he may still be charged with corruption himself.

The support inside the ANC for Mr Zuma reflects a wider resentment. Many party members feel that under Mr Mbeki too much power has been concentrated within the president's office and that government officials have sidelined the party. The ANC's allies in the Communist Party and the trade unions also feel left out. And they have criticised the government's economic policy for being too friendly to business.

Some of these tensions seem to have been soothed by the intense discussions at the policy conference. One notable recommendation was to decentralise the appointment of mayors and provincial premiers, which has rested with the party's leaders since 1997. This should help pacify those who feel that the leadership has become too authoritarian.

A pragmatic compromise was crafted around the succession. Mr Zuma's supporters came to the conference pushing for the ANC president to be made the party's automatic candidate for president of the country. This would have disqualified Mr Mbeki from continuing as party leader, as he is constitutionally barred from running for a third term as South Africa's president in 2009. But in the end the conference recommended only that it would be preferable to combine the two jobs, without changing the party rules to say so explicitly. And Mr Mbeki has pointedly not excluded the possibility of running for a third term as ANC president, especially if he feels that he has to block a successor on whom he is not keen—such as Mr Zuma.

However, other candidates might yet emerge. Tokyo Sexwale, a prominent businessman and a former political prisoner, like Nelson Mandela, on Robben Island, has said that he would take the job if asked by the party. But he may have been out of the ANC's top echelons for too long to make it. Cyril Ramaphosa is another possibility. A former trade unionist turned businessman with an established international profile, he is still part of the party's top leadership and very popular. But he has kept very quiet lately and no one knows whether he really wants the job. Kgalema Motlanthe, the ANC's secretary-general, has also been touted as a possible compromise candidate.

The ANC has once again demonstrated its ability to keep itself together. But as the party edges closer to December, when real decisions on policies and leaders will have to be made, the disagreements may well heat up again. And the stakes will be that much higher.

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Eastern Europe's economies

Worrying about a crash

Jul 5th 2007 | RIGA
From The Economist print edition

Peter Schrank

East European economies are still powering along—but the region is ill-prepared if the weather turns nasty

Get article background

IMAGINE some souped-up old bangers driven confidently but not expertly on a smooth road in fine weather. That is the economic picture of the ten east European countries that are now in the European Union. If the road gets wet or slippery, bad brakes and bald tyres make a crash, even a pile-up, horribly likely.

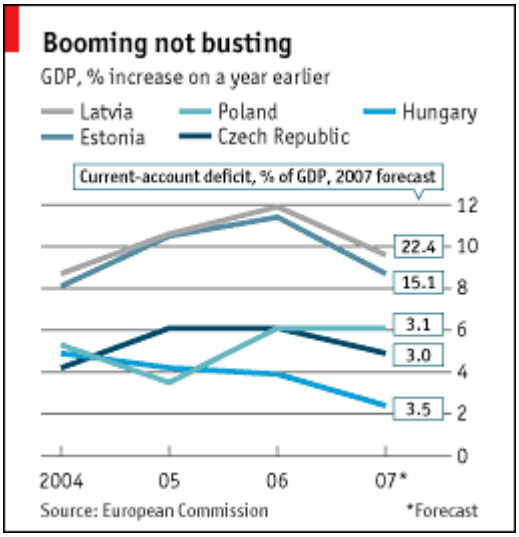
The country that most troubles outsiders is Latvia. It has a whopping current-account deficit: some 21% of GDP in 2006, and bigger still so far this year. That reflects soaring consumption and household debt, financed mainly by foreign-owned banks. Wages are rocketing—up by a third year-on-year. Inflation is over 8%.

This points to a need for tough restraining measures. But the currency, the lats, is pegged to the euro, so the central bank's ability to raise interest rates is constrained. Although the IMF issued a sharp warning in May about the need for a fiscal squeeze, the government is keener on harvesting the dividends of double-digit GDP growth than on acting to avert the risk of a crash.

Aware of the dangers, the banks, mainly Swedish-owned, are reining in lending. Their share prices wobbled during a brief financial crisis in February. Prudent behaviour by the banks may amount to a monetary tightening on its own. Other modest measures include making tax declarations a mandatory part of loan applications, deterring those with undeclared wealth. A speculative attack on the lats may tempt some, but it is tricky to organise in Latvia's puny financial markets.

Latvia is a financial pipsqueak, with only 0.2% of the euro area's GDP. If it does run off the road—for example, if it is forced to unpeg its currency—the main victims will be local borrowers and foreigners who have lent to them (in theory, but probably not in practice, Western banks could refuse to bail out local subsidiaries, even if their loan books shrivelled). Any crash in the Baltics is unlikely to affect outsiders' views of other regional economies.

The likeliest route for contagion would be to next-door Estonia. It is also overheating, but its somewhat more responsible government has a modest budget surplus.



The other early candidate for a crash has long been Hungary, which admitted last year that it had been running a budget deficit of 10% of GDP. But a combination of tax rises and modest spending cuts has trimmed the deficit. Exports and industrial production have risen. The central bank has begun to cut interest rates. Hungary has been “disgustingly lucky”, says Juliet Sampson of HSBC, a bank.

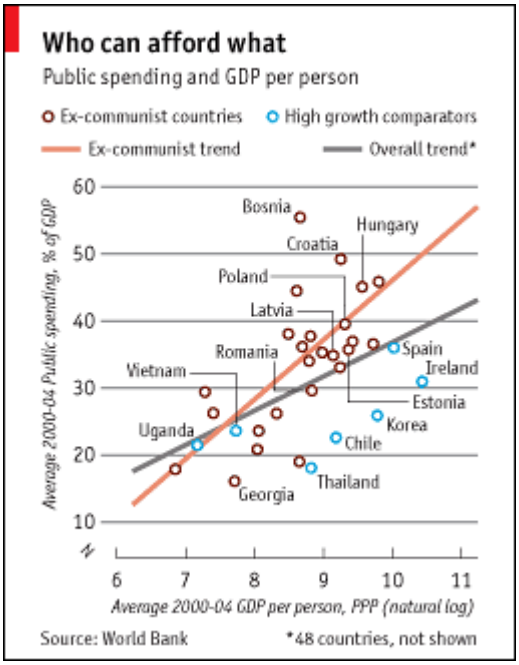
Even if a pile-up is avoided, overheating is still undesirable. As euro members like Portugal have found, a boom stoked by low interest rates and a fixed exchange rate can lead to a long period of uncompetitiveness and slow growth. Except for Slovenia, which is now in, none of the east European countries is likely to join the euro for some time—but they have mostly been able to borrow as cheaply as if they were already members.

So how to cool things down? For countries that can do it, keeping their interest rates above the euro's and letting their currencies appreciate helps. So does bringing in foreign workers from places such as Ukraine in order to reduce upward wage pressures. Slovakia is a prime example of how to pull off both tricks.

The only long-term answer is not to add coolant or to drive more slowly, but to fix up the car. Unfortunately the process of structural reform in the region has largely stopped. Fast growth in tax revenues plus weak political leadership makes for less pressure to get a grip on public finances. Poland and Romania, in particular, have proved alarmingly ready to make expensive spending pledges for political reasons.

A new World Bank study of public spending (see chart below) highlights the bad bargain that the region's taxpayers are getting. Almost everywhere, public spending is higher than it should be for middle-income developing economies. In Albania, the study finds that overstaffing, poor debt collection and wasteful management at the state-run water industry alone costs 1% of GDP. Despite the spread of flat taxes, the “tax wedge”, which includes social-security and other charges, can be as much as 40% of wages.

Changing this is a political matter, not an economic one. But the evidence is that voters do not much like reform. Reforming governments have usually lost the next elections. A report from the European Bank for Reconstruction and Development shows that, in most of the region, only minorities of voters, and sometimes not even a plurality, support both a democracy and a market economy (many choose the “don't care” option instead).



Nor is there any obvious punishment for a failure to reform. Romania and Bulgaria have been backsliding ever since they joined the EU in January, and yet there have been only mild complaints from Brussels, which has lost the leverage that it had before the two countries' entry. Capital markets are accommodating too. The lesson that other countries take from Hungary's financial shenanigans is that it is possible to spend like crazy to win an election and then sober up afterwards.

That will change when global conditions make growth a hard scrabble, rather than a bonanza, and borrowing money means dealing with flinty-eyed sceptics, not rosy-eyed thrill-seekers. The politicians may then have to concentrate on the real sources of competitiveness: brains, hard work and clean government.

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Ukraine's future

Viktor ludorum

Jul 5th 2007 | DONETSK, KIEV AND LVOV
From The Economist print edition

The election in September is necessary but may not be sufficient to clear up Ukraine's messy politics

“SORRY we are closed: everybody has gone to the barricades,” read the note pinned to the door of a travel agency in Lvov, western Ukraine, in November 2004. Irina Mala, the manager and part-owner, remembers how she gathered warm clothes for her husband and sent him off to Kiev, “not knowing whether he would ever come back”. For several days she clung to the television news, watching people like her husband make history in Kiev's Independence Square. “For the first time in my life, I felt proud for Ukraine.”

The euphoria of the “orange revolution” is long gone. In the past six months, Ms Mala has not even watched the news or read newspapers. The power struggle that ensued when Viktor Yushchenko won the presidency in December 2004 after weeks of popular protests made her first angry, then disappointed and now indifferent. Ms Mala may not even vote in the general election on September 30th. “We can't explain to our children what is going on,” she says. The charges and counter-charges are mind-boggling, the nexus between business and politics that Mr Yushchenko pledged to break as strong as ever and the switching of political sides is like a comic opera, not a revolutionary drama.

The plot, so far, goes like this. Mr Yushchenko came to power on a promise to clean up Ukrainian politics. His defeated rival, Viktor Yanukovich, was disgraced because, as prime minister, he had blatantly tried to rig the presidential election. Yulia Tymoshenko, a firebrand politician in the orange revolution, became Mr Yushchenko's first prime minister. But within months, the orange coalition descended into turmoil. Ms Tymoshenko's threats to reopen privatisation deals and her price caps on fuel and other commodities damaged the economy. Fierce internal rows, plus a swathe of corruption scandals, led to the dismissal of the government.

It was thus not a surprise that Mr Yanukovich's Party of the Regions took the biggest share of the vote in the parliamentary election in early 2006. After more months of infighting on the orange side, Mr Yanukovich bounced back as prime minister. Under a compromise in the orange revolution, many presidential powers had been transferred to parliament. Once he was in the driving seat, Mr Yanukovich began to encroach even more.

According to Mr Yushchenko, the Party of the Regions bribed and pressured opposition members of parliament to switch sides so as to gain an illegitimately big majority that would let Mr Yanukovich change the constitution. Mr Yushchenko accuses the party of trying to alter the result of the election and insists that the right response was to call a new election. His opponents say this was an illegal move. Both sides have cited the constitution (full of loopholes) and appealed to the courts (notoriously corrupt). The stand-off almost ended violently, but both Viktors have pulled back and agreed to a fresh parliamentary election on September 30th.

Enter Oleksandr Moroz, a renegade socialist and speaker of the parliament who is still trying to unravel the deal. Mr Moroz's party was once part of the orange coalition. But he betrayed his voters and his political allies by joining Mr Yanukovich's camp. The September election threatens to get rid of him and his party.

Few ordinary Ukrainians care about the politicians' squabbling, partly because they are used to a state of political crisis and partly because they can afford to be bored. After a brief dip under Ms Tymoshenko, the economy is doing well, with GDP growing by over 7% a year, and incomes are rising. The sharp hike in gas prices charged by the Russians has trimmed the pre-2005 double-digit growth, but has also led to greater energy efficiency. “The increase in gas prices has been very helpful,” insists Viktor Pinchuk, a steel magnate who has invested $600m in modernising his plant.

Ukraine's political crisis has had little economic impact. Indeed, one reason the economy is doing well, say some, is that politicians are too busy fighting each other to meddle. There is also a consensus on policy. “Neither Yushchenko nor Yanukovich want to review the results of the privatisations, nor build state capitalism,” says Oleksandr Paskhaver, a former economic adviser to Mr Yushchenko.

There are, indeed, few ideological divides between the main parties. Short-hand labels of Mr Yushchenko as pro-Western and Mr Yanukovich as pro-Russian are misleading. “Both politicians are pro-Ukrainian,” says Petro Oliynyk, governor of Lvov. Both Mr Yanukovich and Mr Yushchenko want Ukraine to integrate with Europe, to join the World Trade Organisation and to stay friendly with Russia. Mr Yanukovich no longer flies to Moscow for advice: these days he is coached by American spin-doctors.

To be sure, there are deep cultural, historical and economic differences between the east and the south of Ukraine, which supports Mr Yanukovich, and the pro-Yushchenko west (with Ms Tymoshenko's support coming from the middle). Only 38% of western Ukrainians have been to the east of the country and 35% of easterners to the west, says one poll. The east, part of the Russian empire for centuries, is largely Orthodox and Russian-speaking. Donetsk, Mr Yanukovich's hometown, was the industrial heartland of the Soviet Union. By contrast western Ukraine was ruled, as Galicia, first by Poland and then by Austria-Hungary, joining the Soviet Union only in 1945. It is partly Catholic and mostly Ukrainian-speaking.

Yet these differences between east and west, exploited by politicians on both sides, have not turned into separatism or even hatred. One thing all parts of the country agree on is that they want a united, independent Ukraine. For all the talk of a pro-Russian mood in the east, none of the Russian oligarchs has been allowed to gain control of its industrial assets. “Yanukovich is an excellent manager and he knows full well that economically the east needs Europe more than the west of Ukraine,” says Alexander Krivoruchko, a businessman in Donetsk.

The real differences between Mr Yanukovich and Mr Yushchenko lie in their values, style of governance and the economic interests they stand for. Behind Mr Yanukovich lurk powerful billionaire oligarchs who control most of the former Soviet mines and giant steelworks in the east. They need markets in Europe, cheap gas from Russia and political connections. Mr Yanukovich's critics say that, despite an attempt at a makeover, he still bears the marks left by the criminalised post-Soviet era. To him, they claim, European integration is a way of gaining new markets rather than of installing democratic values. But Mr Yanukovich also appeals to eastern Ukrainians who see him as a paternal post-Soviet figure who will ensure stable pensions and salaries and won't bother with empty promises of a new way of life.

For his part, Mr Yushchenko sees it as his mission to transform a post-Soviet country into a democratic European one. Despite allegations of corruption in his entourage, most of Mr Yushchenko's support comes from millionaires who need clear rules and independent courts to enforce contracts. Since there are no giant industrial employers in western Ukraine, private initiative is the only way forward. “During the orange revolution, we did not fight for Mr Yushchenko, we fought against lawlessness,” claims Ms Mala. Lawlessness and bureaucratic tyranny are still associated with Mr Yanukovich, as prime minister before November 2004. “My business was under constant pressure from bureaucrats and administrators who all demanded bribes,” says Ms Mala.

The election on September 30th is unlikely to change the balance of power in the Ukrainian parliament. Even Mr Yushchenko recognises this: “I don't question who will lose and who will win in this election.” But it may still help to lay down rules to prevent a similar crisis unfolding again. None of the three main parties is likely to win a majority on its own, so a broad coalition between Mr Yushchenko's Party of the Regions and Mr Yanukovich's Our Ukraine, which may not include the Tymoshenko Block, appears likely. “We are almost done with intrigues, unfair agreements, plots and murky games,” Ms Tymoshenko wrote in a recent article. For Ukraine's 48m people, “almost” is not good enough.

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Viktor Chernomyrdin

A Russian in Kiev

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A former Russian prime minister reflects on the Kremlin today

VIKTOR CHERNOMYRDIN, Russia's ambassador to Ukraine, is no Western-style democrat. Nor does this (now wealthy) founder of Gazprom and ex-prime minister pretend to be. Yet behind his tough Soviet-style exterior is a shrewd and idiosyncratic politician, who provides a refreshing burst of colour in a grey political landscape.

Once termed syntactically challenged, he rarely completes sentences. When he does they turn into folklore, the best example of which ("we hoped for the best, but it turned out like always") is now a catchphrase in Russia. His description of the situation in Ukraine is equally apt: "It has never been like this and now it is exactly the same again." Many Ukrainians would agree.

Mr Chernomyrdin deplores the condescending tone of the Russian media towards Ukraine. "These people have no idea of what is going on in Ukraine. We must show more respect—it will do us good. Boris Yeltsin understood this and never allowed himself to take this kind of tone." This is not the only thing that sets Yeltsin's former prime minister apart from today's Kremlin. "I don't quite understand the role of the government in Russia. What is it doing? Yeltsin and I had a clear division: he was in charge of politics and I was managing the economy. He never interfered."

As prime minister, he chose people for their abilities not their views. "After work they could be whoever they wanted, but during the day they had to be professionals." Few liberal reforms in Russia happened without his support. In 1995 he negotiated on the phone with Shamil Basayev, a Chechen terrorist who took over 1,200 hostages in a hospital in the southern town of Budyonnovsk. "It was the most important thing for the country to understand that the new government cared about its people," he says. Mr Chernomyrdin's intervention saved hundreds of lives and led to peace talks with the rebels. It was a far cry from how the government (mis)handled the 2002 theatre siege in Moscow and the 2004 hostage crisis in Beslan.

The formidable Mr Chernomyrdin took Yeltsin's death hard. "It is like with parents: while they are alive you feel you have your back covered, and when they go you feel you are on your own."

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French universities

Shaking them up

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A much-needed but still half-hearted set of reforms

“WHY in France are there no campuses worthy of the name, no sports grounds, and another extraordinary thing: no libraries that open on Sundays?” Thus Nicolas Sarkozy on his country's sclerotic universities. For an ambitious president, these might seem modest goals. But it is a measure of the universities' dire condition that they seem revolutionary. France has 82 universities, teaching 1.5m students. All are public; none charges tuition fees; undergraduate enrolment charges are a tiny €165 ($220). All lecturers are civil servants. Universities cannot select students, who can apply only to ones near them.

The results speak for themselves. Not a single French university makes it into the world's top 40, as ranked by Shanghai's Jiao Tong University. The French elite opts instead for *grandes écoles* such as the Ecole Nationale d'Administration, which cater to a minuscule 4% of the student population. It is little wonder that Mr Sarkozy sees university reform as urgent. Valérie Pécresse, the higher-education minister, will soon put a law to parliament. Yet though it frees universities in some ways, it leaves their worst rigidities untouched.

Ms Pécresse's main idea is autonomy. Each university's governing body will shrink from 60 to 20-30. University presidents will be allowed to spend their budgets as they wish, including in higher pay to recruit or retain star professors. They will be able to offer jobs more quickly: the creaking central calendar now means it can take over a year to finalise an offer, by which time good candidates have gone abroad. Universities will be permitted to raise private money; students to enrol anywhere. For the first time, universities will own and manage their own property. In exchange universities will share an extra €5 billion over the five years to 2012.

“For the past 20 years, we've never succeeded in reforming universities,” argues Ms Pécresse. “These are revolutionary changes.” In some respects, this is not an exaggeration. Heads of departments at the best universities, such as Toulouse 1, Grenoble 1 or Paris-Dauphine, waste time bending the rules to lure the professors and students they want, or to raise private finance. Now those efforts will be encouraged, and competition between universities legitimised. Universities will have the explicit mission of preparing students for work, something many now see as not their problem. And, as Ms Pécresse points out, this reform puts in place a structure for adding further freedoms in future.

Yet the reform leaves out two critical elements. First, tuition fees. To preserve equal access, there are no plans for these; universities will not even be able to raise enrolment fees. Given the strains on France's public finances, and ambitious plans for better campus facilities, this looks unsustainable in the long run. The second gap is selection. An early version of Ms Pécresse's law allowed universities to select students at entry for masters' degrees. But this was considered so controversial that, at the first hint of resistance, it was quietly dropped. The more pressing issue of student selection at undergraduate entry was never even put on the table.

As things stand, the system relies mainly on selection through failure. Anybody who passes the school-leaving *baccalauréat* exam can enrol at university. Yet roughly half of those who do drop out later. Unsurprisingly, lecturers are half-hearted about teaching in overcrowded amphitheatres filled with half-motivated psychology and sociology students. It is a vast waste of time and resources.

The government knows that there is a problem. Yet even Mr Sarkozy insists that the *baccalauréat* should remain a passport to university, and talks only of “guiding” students towards appropriate courses. The puzzle is that he also argues that difficult reform should be done early, while public opinion is still on his side. Should he decide later to touch the tricky matter of selection, it could then be thornier still.

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France's establishment

The rise of the lawyers

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From The Economist print edition

Nicolas Sarkozy's political world is one of lawyers not énarques

Get article background

THE complex ecology of French politics has a new endangered species: the male *énarque*. In the past, graduates of the elite Ecole Nationale d'Administration bred most of the French ruling class. Two of the past four presidents, including Jacques Chirac, and no fewer than seven of the past 12 prime ministers, including his final one, Dominique de Villepin, were *énarques*. Often, they have filled almost half the cabinet.

Yet today's cabinet has just one—Valérie Pécresse, the higher-education minister—and no male *énarques* at all. Neither President Nicolas Sarkozy nor his prime minister, François Fillon, went to ENA. The cabinet lost its only male *énarque*, Alain Juppé, when he resigned in June. Had the Socialists won the presidential election, *énarques* would have been everywhere: Ségolène Royal, the presidential candidate, and François Hollande, the party boss, actually met at ENA.

Now a new breed is taking over: the lawyer. Mr Sarkozy qualified as a barrister; Mr Fillon studied law. Christine Lagarde, the finance minister, was global head of an American law firm. Jean-Louis Borloo, the ecology minister, was a corporate lawyer. Rachida Dati, the justice minister, was a deputy public prosecutor. Nine of the 16-strong cabinet are practising lawyers or studied law.

What does this say about France? Jacques Attali, an *énarque* and former chief of staff to François Mitterrand, insists that it does not signify the rejection of *énarques* by politics, but the other way round. These days, he says, *énarques* are drawn by money and influence into business and banking. It is government that has lost prestige, not ENA.

But perhaps the trend reflects something more refreshing. ENA teaches a *dirigiste*, centralised, top-down way of governing. Mr Sarkozy's team has not been treated with the same *pensée unique*, and so may be readier to make reforms. In a country that likes to apply abstract nouns to policy proposals, Mr Sarkozy favours such declarations as “my only ideology is pragmatism”.

The new president betrays other lawyers' traits too: a belief in his own powers of persuasion, and an acrobatic ability to interpret rules in his favour. Next week the French head of state, constitutionally charged only with foreign and defence policy, plans to go to Brussels to defend France's flouting of the euro area's deficit rules—at a routine finance ministers' meeting.

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Charlemagne

The two-speed myth

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From The Economist print edition

Peter Schrank

Revived threats of a two-speed Europe need not be taken too seriously

BRUSSELS has played host to many lost causes over the years. Charlemagne's favourite is the harmlessly dotty *rattachiste* movement, which seeks to split Belgium into two—a Dutch-speaking north and a French-speaking south—and then ask France to absorb the second as an extension of its territory. It is a doomed campaign, not least because France shows no enthusiasm for it. Yet over 26,000 Belgians voted for the main *rattachiste* party in last month's general election. This makes no sense, until one realises that those voters do not really believe they will be joining France any time soon. Their vote is rather a Francophone bellow of frustration at the dominance of Dutch-speakers in an increasingly divided country.

Unexpectedly, Charlemagne has been reminded of these frustrated voters in the past few days, as a string of European Union leaders have declared that a “two-speed Europe” is at hand. This is a code phrase meaning that a hard core of enthusiastic states must now push ahead with more integration, leaving backmarkers in the rest of the 27 to catch up if they wish. It is stirring stuff, but there is a small problem. Just as France is in no hurry to annex southern Belgium, so there is no sign of a workable inner core of integrationists. Contemplating the squabbles at the EU summit last month, one senior official comments sardonically that “you could find a pioneer group for going backwards, but for going forwards? I don't think there is one.”

So why the new talk of a two-speed Europe? It reflects that bellow of frustration by people who feel they are being overlooked. Many Euro-enthusiasts were angry about the concessions handed to Britain and other troublemakers at the summit to win their support for a new treaty to replace the defunct constitution. Such leaders as Romano Prodi of Italy and Jean-Claude Juncker of Luxembourg now point menacingly to rules in the draft treaty to make it easier to form pioneer groups. Valéry Giscard d'Estaing, a former French president who chaired the convention that drafted the original constitution, declared after the summit that, if Britain “no longer wishes to participate in moves towards European integration”, it should be offered a “special status” separate from the rest of the EU.

The idea of a “core Europe” was first given a wide airing in a 1994 paper by two German Christian Democrats, Wolfgang Schäuble and Karl Lamers. They argued for a pioneer group that would exert a “magnetic power” on more hesitant states. Their proposed core consisted of the five countries judged ready for currency union: France, Germany and the Benelux trio.

Today Mr Lamers concedes that his old core would no longer work, not least because Benelux has broken down. Dutch voters rejected the constitution in a 2005 referendum, and the Belgian prime minister ended the EU summit shouting at his Dutch counterpart about his lack of European fervour. “At this moment, the Netherlands is in a deep crisis over its identity, I regret it very much,” Mr Lamers says. Perhaps, he

suggests hopefully, Italy, Finland, Austria and Spain could join France, Germany, Belgium and Luxembourg in a new core instead.

Perhaps, but to do what? The Brussels consensus has it that three policy areas are ripe for pushing ahead. Yet thanks to disputes between the various countries that would be needed for a credible core, none of the three could work in practice.

The first involves members of the single currency aligning their economic policies more closely. This has always seemed implausible, because of Franco-German differences over how much control of economic policy to hand to the politicians. Right now, it is unthinkable: France's new president, Nicolas Sarkozy, has united much of the rest of the euro area against him by demanding much more political meddling and economic rule-bending in pursuit of faster growth.

A second idea would be to set up a core to co-operate on such matters as criminal justice and immigration. But much of the feasible work in this field has been done. Border controls have been scrapped across most of the old EU (although not by Britain and Ireland). All 27 members have agreed to Europe-wide arrest warrants for those suspected of serious villainy. The possible next steps are either too hard, even for pioneers (eg, building a single legal system), or too footling to turn into the foundations of a two-speed Europe.

Fighting, but not without Britain

That leaves a third area: defence. Imagine, suggests Mr Lamers, that France, Germany, Italy, Spain, Belgium and Austria built a “common core” of a European army. “It would be of an unbelievable weight.” Yet in the real world only two-and-a-half EU countries have serious global military capability: Britain, France and Germany (the half, hamstrung by post-war pacifism). Britain is certainly not about to sign up to a European army. Even France's military bosses have their doubts: one officer says that creating a European army without full EU political integration would be “putting the cart before the horses”.

All in all, concludes a German official, “if it were easy to have a pioneer group, it would have happened already in the last few years.” Angela Merkel, Germany's chancellor, has slapped down talk of a two-speed Europe, fearing that it could alarm new members from eastern Europe. “I have no truck with that,” Ms Merkel told the European Parliament, as she handed over the rotating EU presidency to Portugal last week.

So is a two-speed Europe impossible? Not quite. European officials have discussed among themselves what might happen in the (admittedly unlikely) event that domestic politics forces Britain's new prime minister, Gordon Brown, to hold a referendum on the new treaty. If Britain were to vote no to a treaty that is already a painful compromise, Europe would enter uncharted waters. And keeping the EU moving at a single pace might then become Brussels's latest lost cause.

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Terrorist attacks

Three times lucky

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AP

An amateurish plot raises new questions about how to keep the country safe

Get article background

SOGGY days at Wimbledon, the tinkle of ice-cream vans and now a terrorist plot: a typical summer in Britain. A year after police foiled an alleged plan to blow up ten transatlantic flights, and two years after four suicide bombers killed 52 people in London, two new attacks in the capital and one in Glasgow have pushed the tennis—and the new prime minister—off the front pages. For all their efforts to disrupt the British way of life, such annual conspiracies are instead becoming part of it.

The fact that no one was badly hurt, bar one of the suspected jihadists, has made it easier for Britons to shrug off the latest attacks. The car bombs—one parked outside a London nightclub, one near Trafalgar Square and one driven into Glasgow airport—seemed especially incompetent. Lewis Page, a former bomb-disposal officer, suspects the patio-gas canisters crammed into the three vehicles would not have made much of a bang even if they had gone off. The “terror-clowns”, as he calls them, had their second London car bomb towed away by parking wardens; the driver of the Glasgow jeep doused himself in petrol only to be put out again by the fire brigade.

Yet the attacks were meant to murder. Even clowns take up police time, distracting officers from other, perhaps deadlier, cabals; the plot has not yet been traced to al-Qaeda, but it may be the main beneficiary of such efforts. And the fact that there were no casualties owes much to luck, and good policing and intelligence.

Within four days of the first attack detectives said they had arrested the main players, and within five Britain's “terrorism-threat level” was moved down a notch. The quick resolution suggests that the extra money earmarked for security is being well spent. MI5 now tracks some 1,600 shady characters—six times more than in 2001, when counter-terrorism received half as much cash. (Some of last week's plotters are thought to have been on its radar already.) Other innovations have helped: opening regional offices, including one in Glasgow, has looked like a shrewd move in the past week.

Yet a subtle shift in emphasis now seems likely. Britain, like other countries, has been struggling to grasp the precise nature of the terrorist threat it faces. A big lesson of the London transport bombings in July 2005 (and of the 2004 Crevice fertiliser plot, details of which emerged only this year) was that suicidal terrorists need not be strangers, as those who attacked New York's World Trade Centre in 2001 had been. It was a Yorkshire lad, born and bred, who organised the 2005 attacks, though al-Qaeda tugged the strings.

Politicians have focused since then on discouraging more home-grown bombers. As well as granting the police new powers to hang on to suspects and stop and search passers-by, the government has rattled off initiatives to stop young men falling under the spell of wacky imams. A mosque watchdog was established, and a touring Islamic roadshow provided a platform for more liberal scholars. In December a government-backed report was still calling for “community relations to be at the heart of security policy”.

This may now change a bit. British accomplices in last week's botched efforts could yet be unearthed, but so far the suspects are Indian, Jordanian and Iraqi (though one was born in Aylesbury). Roadshows will not stop those who are radicalised before coming to Britain, if, as seems likely, these men were.

On July 4th Gordon Brown announced that imported bad apples would come in for greater scrutiny. The international terrorist “watch list” of suspects would be expanded, he said, and skilled migrant workers would face wider background checks. That all eight suspects were employed by the National Health Service (NHS) has provoked an especial *frisson.* A review of NHS recruitment methods will look at whether the health service is too easy a backdoor into Britain, as some have claimed following the arrest of the “docs of war”.

At home, giving the police still more powers was already on the cards, and may now be easier for the government to justify. The next counter-terrorism bill, due in the autumn, includes some widely supported changes such as using phone-tap evidence in court and letting detectives go on interviewing suspects after they have been charged. The main sticking point, which might now be rather less sticky, is whether to allow police to hold suspects for longer than 28 days without charging them. Lord Carlile, a Liberal Democrat peer who keeps an official eye on anti-terrorism measures, favours extending the limit. But opposition parties still want to see evidence that longer detention would help prevent terrorist attacks.

Another change is the creation of a new national-security committee, chaired by the prime minister, which will replace three separate cabinet committees covering aspects of the matter. This approach is an improvement, if a recipe for epic squabbling, says Charlie Edwards of Demos, a think-tank. Mr Brown also plans to make Parliament more independent in its scrutiny of the secret services. He will no longer appoint its intelligence and security committee, which will get its own secretariat and a new investigator.

A stronger committee could test the new prime minister. John Morrison, the previous investigator, was sacked in 2004 (and not replaced) after saying he could “almost hear the collective raspberry going up around Whitehall” when Tony Blair claimed that Iraq posed a serious threat. One mark of a good prime minister is the ability to suffer impertinence with good grace. Mr Brown has shown he can handle bombs; can he cope with raspberries?

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The British army

Out of step

Jul 5th 2007
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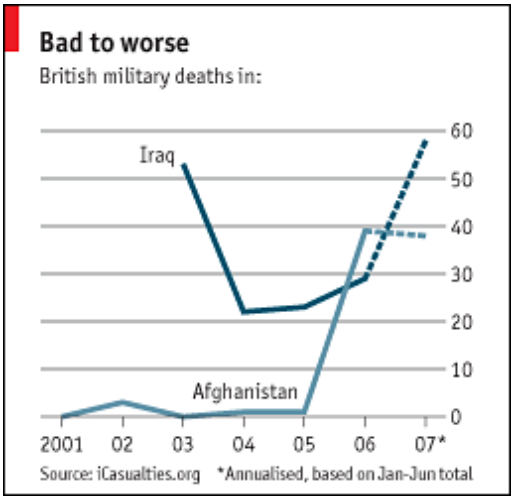
The generals can't wait to get out of Iraq

Get article background



BRITISH soldiers marched into Iraq in 2003 shoulder to shoulder with the Americans. Will they leave together too? Not if it is up to Britain's top brass.

The troops are suffering casualties at about twice last year's rate. Commanders long ago lost hope of regaining the initiative against Shia militias. Last year General Sir Richard Dannatt, the army chief, questioned the value of staying on. British soldiers serve little purpose beyond getting shot at, many think.

The British army's gloominess contrasts with the Americans' determination to regain control of Baghdad. “The Americans are at war; we are on operations,” explains one senior British officer. Others point out that if the Americans succeed in Baghdad, it will improve matters in Basra, but the converse is not true. The only thing keeping the British in Basra is a double fear: of damaging the prestige of the British army if it is seen to be bombed out of Iraq; and of damaging the strategic relationship with America if it is seen to have abandoned its ally.

Gordon Brown's new government includes known sceptics about the war, not least the foreign secretary, David Miliband. But the prime minister told the House of Commons on July 4th that, although Britain was reducing its forces in Iraq (a process begun by his predecessor), its presence was a commitment made to the Iraqi government and the United Nations. “We are not going to break those obligations,” he said, “at this stage.” In September the American commander in Iraq, General David Petraeus, will report on the progress of his “surge”.

As the Americans were building up in Baghdad earlier this year, the British were drawing down from about 7,100 to 5,500 troops. Once Basra city is handed over to Iraqi forces, perhaps this summer, the British will have about 5,000 troops based at the airport. At the same time, Britain has increased to 7,000 its troops in Afghanistan, where commanders are more hopeful.

But fighting two biggish, prolonged campaigns is straining Britain's shrunken armed forces. The fact that the defence secretary, Des Browne, has been given added responsibility for Scotland has not gone down well, in either the army or the Commons, where one MP asked Mr Brown whether being defence secretary had become “a part-time job”.

The parliamentary Public Accounts Committee reported on July 3rd that 15% of soldiers were exceeding the “harmony” guidelines for length and frequency of deployments. The number of army officers leaving early has reached a ten-year peak, and there are signs of “overstretch”—a term the Ministry of Defence avoids—in some jobs. Nobody yet knows where the army's breaking point will be. But the generals want to leave Iraq before they find out.

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Constitutional reform

The king is dead

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Some ideas for improving Britain's governance are better than none

Gordon Brown

IT IS one of the oddities of Britain's unwritten constitution that, when considering whether the country should send troops into battle, the House of Commons often ends up voting on the technical question of whether to adjourn. As Jack Straw, now the justice secretary, recently put it, “the question before the House is not whether we go to war but whether we go home”. The actual power to declare war is exercised by the prime minister, in the monarch's name. But it won't be for much longer, if ideas set out by Gordon Brown on July 3rd, in his first parliamentary statement as prime minister, are enacted.

Along with war-making, Mr Brown named other executive powers that, he said, ought to be limited or curtailed. For example, he wants Parliament to have a statutory right to ratify new treaties, and to have more oversight of the intelligence services and of public appointments. Jumbled up with those redistributions was a *mélange* of other plans, avowedly designed to transfer authority from the executive to Parliament, and from Parliament to ordinary people. He speaks of “citizens' juries”, and the need to make it easier for the public to petition Parliament. He wants to reform the (controversial) role of the attorney-general: the current one, he said, will not make decisions about whether to prosecute in individual cases (such as loans for peerages). He wants to lift the restrictions on protests outside Westminster—a small but totemic gripe under his predecessor, Tony Blair.

Constitutional reform is an area of policy that, perhaps more than any other, combines lofty ideological principle with base party motive. The Tories—who now hold virtually no sway in Scotland—duly raised “the English question”: the fact that English MPs have no say over issues devolved to the Scottish Parliament, but Scottish MPs (such as Mr Brown) get to vote on English matters. The Liberal Democrats—disadvantaged by the current electoral system—complained that Mr Brown had said almost nothing about electoral reform.

It is true that most of the big questions were fudged. Reform enthusiasts had hoped the prime minister would establish a “constitutional convention”—along the lines of the one that paved the way for Scottish devolution—that would lead to the writing of a constitution, or at least to a new Bill of Rights. Instead, Mr Straw is to hold a series of talking shops. There are to be yet more papers and more chat about how to finish reforming the House of Lords, in which, after Mr Blair's half-baked stab at it, 92 hereditary peers still sit.

Nor, on closer inspection, were some of the more concrete proposals quite as bold as they appeared. For example, surrendering the prime minister's exclusive right to dissolve Parliament (and thus call an election) will matter little so long as the prime minister commands a majority in the House of Commons. As Robert Hazell, of University College London, points out, if Mr Brown really wanted to give up his right of dissolution, he would have advocated fixing the parliamentary term. Scrutiny of appointments by parliamentary committees, another proposal, is an advance—but it would be a bigger one were they actually to have a veto. And so on.

Still, considering that Mr Brown had been in office for less than a week, and that some of his ideas were novel if not radical, the charge that they did not go far enough seems a little harsh. The real weakness may be not in his methods but in his avowed aims. As well as making government more accountable, he wants to revive public trust and interest in politics, which—as falling election turnouts and party membership arguably attest—have waned in Britain and elsewhere. But they have done so in part for reasons that have less to do with the shape of political institutions and the merits (or otherwise) of politicians, than with lifestyles, technology and globalisation.

The most common carp this week was that Mr Brown's proposals were cosmetically designed to help dispel his reputation for Stalinesque control-freakery. The truth is that there are probably very few votes to be

won in constitutional tinkering. Which, perhaps, make it rather laudable that Mr Brown is having a go.

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Virgin Media

Branson's bumpy landing

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From The Economist print edition

Why Virgin's shareholders are keen to sell, and private-equity investors to buy

LIKE the plot of a TV re-run, private equity's recent courtship of Virgin Media, Britain's biggest cable-television company, feels too familiar. The firm has been approached twice in the past two years by private-equity buyers, and each time Virgin Media rebuffed the offer as inadequate. Important shareholders including Bill Huff, an activist American investor, and Sir Richard Branson, the founder of the Virgin brand, who together controlled about 17% of the company, stood beside managers and urged others to give the firm time to pull up its socks.

But this time the familiar actors have been cast in different roles. Mr Huff has been quietly selling down his stake and, after an approach by Carlyle, an American private-equity firm, Sir Richard is said to have made it known that he would be amenable to a sale. Virgin Media is likely to cost Carlyle at least £10.5 billion ($21 billion). If, as many expect, the final price is higher, the deal will surpass the biggest British private-equity blockbuster to date, the £11 billion takeover of Alliance Boots.

Getty Images

The biter bit?

Virgin Media's loss of shareholder support is humbling for a firm whose predecessor, NTL, teamed up with Sir Richard a year ago to challenge BSkyB's dominance of British pay television and BT's supremacy in home telephones. It planned to storm both markets with a combination of the well-known Virgin brand and Britain's first “quadruple-play” of pay television, home telephone, internet connection and mobile phone.

That opportunity, however, seems to have been missed. The firm continues to report losses (£120m in the three months to March 31st). It is ceding fixed-line and mobile-phone customers to cheaper rivals. As for television, growth ground to a halt after Virgin lost the right to provide its cable customers with some of BSkyB's channels because of a squabble with its bigger competitor over their price.

In the rest of Europe and in America, cable dominates the pay-television market. In Britain, cable has fallen behind. What has gone wrong?

Some of the industry's troubles are not of its own making. Cable firms were crippled at birth by the government, which initially refused to let them offer voice and data services over their networks and ruled that each could have access to no more than 5m homes. Although the state subsequently relented, the damage was done. Firms have been merging for a decade and are still struggling with patched-together systems. Virgin Media, which emerged when NTL and Telewest, the biggest cable firms, combined and then did a deal with Virgin Mobile, now accounts for almost all the cable market.

But there was more than enough dull management to go round too. After busily digging up streets and laying wires, cable companies failed to offer the enticing programming or decent service needed to win and keep customers. That left the door open to Rupert Murdoch's BSkyB, which danced around them, sewing up exclusive rights to sports matches and new Hollywood movies.

The market, deregulated, has also moved on. Satellite broadcasters such as BSkyB offer home telephones and fast internet connection, while new technology allows companies including BT to transmit television shows over telephone lines. Freeview, a multi-channel terrestrial television service, is now in more homes than either cable or satellite television. “The technical advantage that cable companies had is disappearing fast,” says Guy Bisson of Screen Digest, a market-research firm.

Given Virgin Media's troubles, why would Carlyle want it? The firm offers a predictable cash flow that could

be used to repay the loans needed to buy it; but there may be another reason too. Analysts at Merrill Lynch reckon Virgin Media has a “tax loss” of about £12 billion, which could be written off against profits, if Virgin made any. That could be useful for an acquirer looking to shelter earnings. Several private-equity groups besides Carlyle are also thinking hard about bidding for the media firm. Expect more twists in this suddenly unpredictable plot.

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Education

Dividing and multiplying

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From The Economist print edition

Extending what schools do risks diluting their core purpose

Get article background

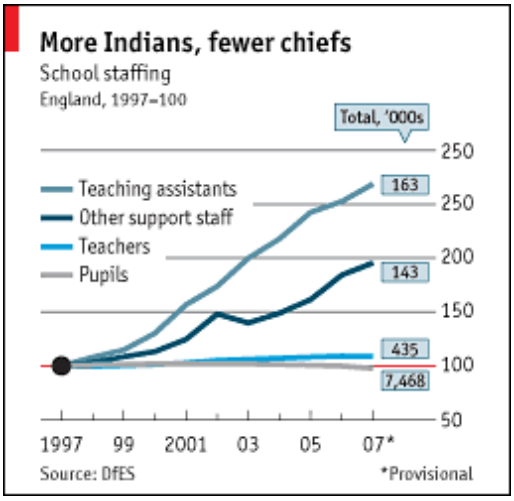
REJIGGING government departments is an easy way for a new leader to signal a break with the past. And this is exactly what Gordon Brown has done in his first week as prime minister, with a good deal of reshuffling of ministerial duties and two departmental eviscerations.

The most eyecatching of these divided the education department down the middle. The Department for Children, Schools and Families (DCSF) inherits most responsibilities for under-19s, including some taken over from other departments, such as youth justice and the "Respect agenda" (cracking down on anti-social behaviour) from the Home Office. The Department for Innovation, Universities and Skills (DIUS) takes up where DCSF leaves off, overseeing further and higher education and doling out research funding, much of which previously came from Mr Brown's other main casualty, the now-deceased Department of Trade and Industry.

The Tories have seized the chance to sideline their accident-prone education spokesman, David Willetts: he will shadow DIUS, the less politically sensitive of the two education departments. Michael Gove, surefooted as shadow housing minister, has been promoted to the trickier schools and children beat. There he will take on Ed Balls, long Mr Brown's most trusted lieutenant in economic matters and certain to be a strong voice on children. The clash of the two rising stars should keep spectators riveted in parliamentary sessions to come.

Appointing Mr Balls to education, and splitting the brief to give it two seats in cabinet, suggests that education is central to Mr Brown's plans for Britain. It also indicates the likely direction of his schools policy. In recent years schools have expanded from being seats of learning into providing a wide range of services for young people and their families. Although there are more teachers than there were, the number of other staff has gone up much more, while the number of students has hardly changed (see chart). By omitting the word "education" from the name of the department that runs schools, Mr Brown signals that this transforming trend will continue.

One reason for their ever-expanding social remit is that as families change, with more mothers working and fewer fathers sticking around, schools find themselves taking up the slack. Many now stay open long hours, all year round, with breakfast, after-school and holiday clubs. And they are increasingly seen as the solution to everything grown-ups think is wrong with the world. Teenage pregnancies and sexually transmitted diseases? Open sexual health clinics in schools. Anti-social behaviour and poor parenting? Get police to patrol the corridors and bring in social workers. Schools are even supposed to be able to fix more general ills. Low social mobility and segregation by race and class? Allocate school places by lottery, and twin schools with contrasting student bodies.



Another complication is that schools must now work closely with all the other government agencies that touch children's lives—one of the consequences of the death in 2000 of eight-year-old Victoria Climbié at the hands of those who were supposedly caring for her. A report in 2003 concluded that her life could have been saved if the many agencies whose path she had crossed had shared information with each other. Since most children have little contact with services other than schools, it is in schools that much of this information is now to be gathered. From next year around 330,000 government employees will have access through ContactPoint, a government database, to tonnes of information about everyone in England under the age of 18.

Some worry that something vital has been lost in all this activity: education itself. According to Robert Whelan of Civitas, a think-tank, DCSF's new brief is just the latest sign of the downgrading of knowledge in schools. “It isn't the job of schools to bring up children, but to educate them,” he says. He sees the changing role of schools as of a piece with a curriculum that elevates self-esteem and exposure to trendy pieties above the pursuit of true learning. Improving social support and imparting soft skills surely matter—but not at the expense of the three Rs.

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Interest rates

The bank decides

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From The Economist print edition

Monetary policy continues to tighten

Get article background

IN THE past year the Bank of England has surprised the City twice by raising interest rates. On two other occasions rate rises were seen as done deals before the bank's monetary-policy committee met. So it was on July 5th: the increase in the base rate to 5.75%—up from 4.5% a year ago—was anything but unanticipated.

The decision had been widely predicted after the minutes of the nine-strong committee's last meeting were published on June 20th. These showed that four members, including Mervyn King, the bank's governor, had backed a quarter-point rise in early June. The markets concluded that this made an early increase virtually certain, and the pound rose above $2 again, reaching a 26-year high.

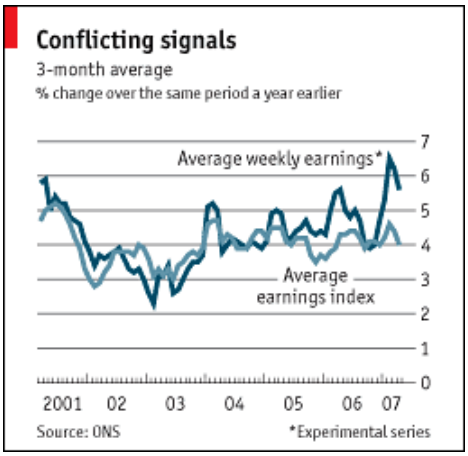
But what matters now is the future direction of monetary policy. Has the bank done enough to keep inflation at bay? Or will it have to yank the base rate up yet again, to 6.0%, as the City expects?

There are two main reasons why the bank might now stay its hand. The first is that the worst of the recent inflation shock seems to be over. The annual rate of consumer-price inflation came down from its peak of 3.1% in March to 2.5% in May, and it is likely to fall to the government's target of 2.0% by the end of the year.

The second is that there is a risk of overdoing the monetary medicine. Household finances are fragile: people have borrowed heavily in the past few years and the savings ratio has declined to its lowest level since 1960. If rates go too high, consumers might retrench abruptly, which would cause a sharp economic slowdown.

But there are also weighty arguments for the bank to tighten again. The economy grew at 3.0% in the year to the first quarter of 2007, which is above the trend rate of growth; excluding oil and gas, output rose by 3.2%. Investment is booming—capital spending jumped by 8.9% over the same period—and consumers have not yet thrown in the towel.

Business surveys suggest that the economy is operating at close to capacity, and that companies are primed to push up prices. Rapid growth in money and credit may also presage inflationary trouble. Broad money (M4) rose by almost 14% in the year to May, and underlying lending increased by nearly 15%.



Much depends upon whether pay pressures are building up in the labour market. On the one hand, the average-earnings index grew by 4.0% in the three months to April compared with the same period in 2006 (see chart). This rate is comfortably below the level of 4.5-4.75% that is consistent in the long term with the 2% inflation target. On the other hand, an “experimental” official series for average weekly earnings, based on the same underlying data, paints a less reassuring picture—mainly, it seems, because it shows a bigger effect from higher bonuses.

The bank will probably now pause over the summer to gauge the effect of its monetary tightening. It takes a year for rate rises to exert their maximum effect in slowing GDP growth, feeding through a year later to their full impact in dampening inflation. But borrowers beware: a further rise in the base rate, taking it to 6.0%, still seems highly likely.

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Flooding

Waterfront property

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The folly of building on flood plains

IT HAS been a strange spring, even by British standards. After sweltering through the hottest April for over a century and shivering during an unusually cold May, the country was deluged by the wettest June since records began. Up to seven people died in the subsequent floods; 27,000 homes and 5,000 businesses had to be evacuated. Firemen and paramedics described the rescue efforts as the biggest-ever in peacetime. Insurers gave warning that the final bill would be more than £1 billion.

As the waters began to drain away and the displaced to trickle home, politicians promised action. Hazel Blears, the communities secretary, said local authorities would be given money to help with the clean-up. Hilary Benn, the environment minister, pledged to boost spending on flood defences from £600m now to £800m a year by 2011.

The extra money will be welcome, but will not address the fundamental problem: England's penchant for building houses in silly places (Scotland, Wales and Northern Ireland are all much stricter). Some £200 billion-worth of houses, businesses and other infrastructure is at risk from flooding. One in ten new houses are being built in similarly risky places, including 31,000 planned for Ashford in Kent and 120,000 in London's Thames Gateway.

These new homes are needed to accommodate a growing population, especially in England's south-east. Often a flood plain is the only land available. Most of the remaining land in that part of the country is protected because it is scientifically interesting, or because the government wants to discourage building on green belts around the cities.

Officials insist that flood risk is taken seriously. Planning laws were tightened last year, and the Environment Agency given more clout. But its advice has often been ignored in the past, and Gordon Brown has already made it clear that he wants plenty of new houses built.

Insurance may be a bigger constraint on house-builders than planning rules. Thanks to an agreement in 1961, until recently insurers protected all homes against flood in return for the state's promise to pay for flood defences.

That changed after an inundation in 2000 produced £1 billion in claims. Nowadays, insurance for new homes in flood zones is often more expensive than in less risky areas and occasionally impossible to obtain, which should make it harder to buy houses at risk from flooding. But ministers don't seem to be listening: a third of the area earmarked by the government for new housing lies on flood plains. Some observers worry that homes which turn out to be uninsurable will simply be used as social housing for the poor.

The Association of British Insurers, an industry body, says that the flood risk in the Thames Gateway is so high that many of the homes there should have their living space upstairs (and, presumably, garages below). Another option might be to learn from the Netherlands and its long experience of flooding. There, inventors have come up with floating houses that slide up and down on steel rails. The Dutch might find a ready market for their designs in Britain.

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Bagehot

The phoney war

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From The Economist print edition

Steve O'Brien

Britain is feeling sanguine about both the new prime minister and terrorism. The mood may not last

Gordon Brown

THE baggage handler was having a cigarette break when a jeep containing two maniacs, plus their payload of petrol and gas, rammed the doors of a Scottish airport last week. “You don't expect to see that,” said the deadpan baggage man afterwards, “especially at Glasgow airport.” Another passer-by, who helped to knock down one of the terrorists, self-deprecatingly conceded that he might not have managed it if the man hadn't been off balance. And with that, the sepia mist descended.

Britons like to think of themselves as gamely indomitable. After last week's failed attacks in London and Scotland, politicians and headline writers fell back on that feel-good archetype of gutsy British stoicism: the Blitz. Television crews were soon roaming the West End, where the two London car bombs had been discovered, interviewing after-work boozers (who gallantly affirmed that they would continue boozing), as if they were plucky secretaries struggling to work amid the rubble of 1940. The *Sun* offered its readers free Union Jacks, urging them to “Fly it in the Face of Terror”. There was more amateurish derring-do to sustain the comparison: after a suspect device was discovered in the hospital to which one of the Glasgow terrorists was taken, staff reportedly saw a policeman swinging the object into a nearby cricket field. Perhaps surprisingly, this sub-Blitz mood has been kind to Gordon Brown, prime minister for a day when the London plot came to light.

Britons also like to think of themselves as sportingly fair-minded. Mr Brown was already benefiting from an urge to give the new boy a chance—though even so, some may have found it less than reassuring when, faced with a question on terrorism from David Cameron, leader of the Conservatives, Mr Brown protested that he had only just got the job. Like others, British voters also prefer not to think of themselves as callow and superficial. Most would probably like to be the sort of person who values sobriety and substance over style and schmaltz. Mr Brown's response to the terrorist plots successfully appealed to these “better angels” of their natures (a phrase he recently borrowed from Abraham Lincoln in describing his political credo).

When talking about terrorism, Mr Brown has in the past experimented with the Churchillian rhetoric that his predecessor Tony Blair went in for. But this week he and Jacqui Smith, his new home secretary (and the first woman in the job), have been altogether more prosaic. Mr Brown blandly persevered with the

announcement of his worthwhile but unspectacular plans for constitutional reform. Churchill once calculated that, on current form, it would take the Luftwaffe ten years to destroy half the houses in London, “after which progress would be much slower”. Without the wit, Mr Brown and Ms Smith likewise espoused a long, sanguine view of the anti-terrorist struggle, which, they aver, will never compromise the British way of life. The prime minister's sensible enlistment of two outsiders—a top policeman and an admiral—to security posts last week was immediately emulated by Mr Cameron, who drafted in a former diplomatic mandarin in his own mini-reshuffle.

So although conventional wisdom had it that Mr Brown would struggle to cope with “events”, he did rather well in his tumultuous first 100 hours. Because tone was paramount, the bomb scare gave him a chance subtly to prove that he is the force for change he claims to be, without resiling from his own record in government. Resolute though he appeared, there were no rushed, macho promises of draconian legislation; there was more emphasis than previously on “hearts 'n' minds”. The nifty shape of his young (some might say adolescent) new cabinet has conveyed the same message. Result: a poll released on July 3rd confirmed the findings of earlier ones that showed Mr Brown and Labour pulling away from Mr Cameron's Tories. After Glasgow, the prime minister's “strength” rating—one of his key assets—is flourishing. There is more talk of an early election.

Not there yet

Unfortunately for Britain, those comforting invocations of the Blitz spirit may turn out to be presumptuous. Unfortunately for Mr Brown, it is not always the better angels that determine how people actually vote.

Presumptuous, because the most important feature of last week's plots is that they killed nobody, not even the suicide-bombers. The public's response, and Mr Brown's, might have been different if they had. And, although they attested to the amateurishness of the plotters, the bungled attacks also made plain the vicious complexity of the problem facing Britain's security services. The terrorists are both foreign and home-grown; some are highly educated; as the targeting of a nightclub demonstrated, their motives are much murkier, and even less easy to deal with, than a simple foreign-policy grudge. As Mr Brown himself has argued, the danger is more analogous to the cold war than to the appalling but fairly predictable horror of the Blitz. He is right that the terrorists' global ambitions are doomed to failure—but they can and probably will do a lot of damage on the way. Perhaps Britain can indeed “take it”; perhaps it will have the resolve to fight in the airport terminals, fight on the motorway hard shoulders, fight in the nightclubs and on the Tube. The understated, almost blasé response to the 2005 bombings suggests that it will. But it is too early to tell.

And it is, similarly, too early to say much about Mr Brown's performance or electoral prospects. The Tories expected a Brown bounce. They are hoping that the novelty of his “unspun” approach—itself a calculated form of spin—will soon fade, and that tolerance of his clumsy, soporific style will wear thin. The better angels may never again line up behind Mr Brown quite so conveniently. As he doubtless realises, this was the week of phoney war, in every way.

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America and Russia

Days of fishing and poker

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From The Economist print edition

Reuters

George Bush invited Vladimir Putin fishing. The two men agreed politely to disagree a lot and co-operate a bit

AS DIPLOMATIC fishing expeditions go, George Bush's outing with Vladimir Putin in Maine earlier this week netted more than a striped bass. It showed, as it was supposed to, that the rancour of recent months will not stop America and Russia co-operating where they see fit. Fears of a new cold war, both sides insist, are much overdone. So is their friendship. Mr Putin hosted Venezuela's America-baiting Hugo Chávez just before leaving for Maine. Mr Bush lengthily hob-nobbed with Toomas Ilves, the American-educated president of Russia's least-loved neighbour, Estonia. It is not for the issues agreed on, but those that got away, that this week's “lobster summit” may be remembered.

Even some of the proposed areas of co-operation may end up contentious. Mr Putin said the two countries no longer looked at each other through gun sights and surprised Mr Bush with new ideas for extensive co-operation on the touchy issue of missile defences. Yet barely had the two men stowed their fishing gear than Sergei Ivanov, Mr Putin's putative successor, repeated the Kremlin's earlier threats. Russia would move some missiles to its westernmost outpost, the Kaliningrad enclave, if America goes ahead with missile-defence bases in the Czech Republic and Poland.

Mr Putin offered help against the threat America sees from Iran, by sharing Russia's radar in Azerbaijan, plus another yet-to-be-built installation in southern Russia. He suggested data-exchange centres in Moscow and in western Europe. But Mr Bush sees these not as substitutes for the Czech and Polish sites, but as potentially useful bolt-ons. American officials would be happy to use talks to explain how geography, force-ratios and the laws of physics mean that neither the Czech radar, nor the handful of unarmed Polish interceptor rockets, remotely threaten Russia's vast nuclear arsenal. But politically Russia seems in no mood to be convinced.

In Maine, Mr Putin likened his talks with Mr Bush to a card game. Some see this latest missile-defence ploy and the accompanying threats as a poker play: an effort to divide Europe from America at a time when Mr Bush is still widely unpopular for the war in Iraq.

Others think Mr Putin is trying to row back. Having likened America to the Third Reich and lambasted Mr Bush as a danger to the planet, he has offended European governments as well as America's and made Russia look scary. Now he wants to sound constructive, while harbouring no illusions that the differences between the two can be bridged.

The wrangling over missile defence will continue, but Russia is at least seeming to take more seriously America's concerns over Iran. Against most expectations the two have kept in diplomatic step in attempting to check Iran's nuclear programme. They have pushed two sanctions-bearing resolutions

through the United Nations Security Council. A third is in prospect, unless Iran moves to satisfy demands that it suspend enrichment of potentially bomb-useable uranium and answer inspectors' persistent questions about its nuclear past.

Russia prefers to talk about sanctions than impose them. But this week Sergei Kislyak, a deputy foreign minister, hinted that Russia will hold off supplying fuel to the nuclear reactor it is completing for Iran at Bushehr. It will not help Iran's nuclear programme further until the UN's International Atomic Energy Agency (IAEA) is satisfied that the plans are entirely peaceful.

Russia's readiness to keep up pressure on Iran helped gain Mr Bush's initials on something Mr Putin may find more pleasing: an agreement that (if ratified by Congress) would start extensive American-Russian co-operation in civil nuclear power. Russia scents big profits in handling nuclear fuel from around the world. The two countries have hatched a plan to help even poor countries enjoy the benefits of nuclear power, without increasing the risk, highlighted by Iran and North Korea, that the technology will be abused to build weapons.

The idea is to provide technical help, more proliferation-resistant reactor designs and reliable fuel services to countries in good standing with the IAEA; such countries would have to agree not to develop the uranium-enriching and plutonium-reprocessing skills that can be used for generating nuclear power but abused to build bombs. Enshrining this link between the responsible pursuit of nuclear energy and responsible non-proliferation is a step in the right direction, says Rose Gottemoeller, head of the Moscow office of America's Carnegie Endowment for International Peace, a think-tank.

Others worry that encouraging the spread of nuclear technology—though demand is already growing in Africa, Asia, the Middle East and Latin America—merely heightens the risk of materials falling into terrorist hands, and of the technologies being abused. Teaching people to operate a large power reactor, argues Henry Sokolski of the Nonproliferation Policy Education Centre, will also transfer skills that would be equally useful for bomb tinkering. And even IAEA inspections, he says, cannot always detect diversion of nuclear materials in a timely fashion.

Business may take the edge off some political differences. But Russia sees the chance of a historic comeback in the combination of American weakness and its own energy riches. And America is determined not to concede Russia its sought-for sphere of influence in eastern Europe.

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International justice

How the mighty are falling

Jul 5th 2007
From The Economist print edition

The beginning of the end of impunity for the world's once all-powerful thugs

Get article background

AP

Charles Taylor hears history in the making

AS THE world's first permanent war-crimes court celebrates its fifth birthday this week, the mood is upbeat: formal investigations are under way in four countries; it has issued eight arrest warrants; it is about to gain its 105th member, Japan; its first trial begins in the autumn, and America, once hostile, now sounds decidedly more friendly. Indeed, the administration recently said it would, if asked, consider assisting the court's work on Darfur.

So far, the International Criminal Court (ICC), which is allowed to investigate atrocities perpetrated since its founding in July 2002, has no big scalps to display. Its eight accused comprise five leaders of the rebel Lord's Resistance Army (LRA) in northern Uganda, a *janjaweed* leader in Darfur, a Sudanese government minister and a Congolese warlord. But it has at least one ex-president, Ange-Félix Patassé of the Central African Republic, in its sights, and more may be targeted soon.

So these are uncomfortable times for tyrants, past or present. They used to be able to escape justice through brutality at home, or if that failed, fleeing abroad. Now justice's arms are looking longer and more muscular. This week Charles Taylor, a notorious Liberian ex-president and warlord, appeared at Sierra Leone's Special Court, transferred to The Hague, on 11 counts of war crimes and crimes against humanity.

Justice may also be catching up with Hissène Habré, Chad's former president. After living in exile in Senegal for the past 17 years, he is now facing trial before a special war-crimes court set up by the Senegalese government earlier this year on the orders of the African Union. It was only after Belgium had threatened to try Mr Habré under its “universal jurisdiction” law that African leaders decided to abandon their tradition of mutual protection and vote for his prosecution by one of their own.

In Iraq, Saddam Hussein's cousin, Ali Hassan al-Majid, better-known as “Chemical Ali” for killing tens of thousands of Iraqi Kurds with poison gas, was last month sentenced to death by an American-sponsored court along with two other henchmen. Mr Hussein himself and two close allies have been executed. More expect the same fate as the trials continue.

Like Chile's Augusto Pinochet and Serbia's Slobodan Milosevic, the leader of Cambodia's Khmers Rouges, Pol Pot, managed to escape justice by dying. But his surviving underlings may not be so lucky. Last month the final obstacle to the long-promised genocide trials of an expected dozen or so Khmer Rouge leaders was removed when agreement was reached on the rules of procedure for the special “hybrid” international tribunal, set up by the UN and the Cambodian government.

In Lebanon, where attempts to create a special court to try the assassins of Rafik Hariri, the country's former prime minister, have been going on for more than a year, the Security Council has at last decided to take the bull by the horns, voting to set up a tribunal “of international character” without the approval of Lebanon's deadlocked parliament. Lebanon is already holding eight suspects, including four Syrian generals. Syria, and its Lebanese protégés, Hizbullah, have denounced the decision.

Extradition adds another dimension, giving national justice systems a global reach. Two Argentine judges want Spain to send Isabel Perón, the country's former president, home to face a war-crimes trial. Peru is

pressing Chile to agree the extradition of its former president, Alberto Fujimori, on human-rights and corruption charges.

It is easy to pooh-pooh international courts. After the creation of the world's first international war-crimes tribunals in Nuremberg and Tokyo at the end of the second world war, it took nearly half a century before another one was established—the International Criminal Tribunal for the former Yugoslavia (ICTY), set up by the UN in The Hague in 1993. But since then, progress has been impressive. Of the 161 people the ICTY has indicted, only four are still on the run; 59 have been convicted.

The International Criminal Tribunal for Rwanda, set up the following year, has done rather less well. Of the 70 or so indicted, 18 are still at large, including Félicien Kabuga, a multi-millionaire and alleged bankroller of the 1994 genocide. But among the 28 so far convicted are Rwanda's former prime minister, Jean Kambanda, and seven of his ministers.

The ICTY's fugitives include, of course, two of its most wanted suspects—Radovan Karadzic, the former Bosnian Serb leader, and his top general, Ratko Mladic. But since last month's arrest of Zdravko Tolimir, Mr Mladic's top aide, hopes have again been raised of the general's possible imminent arrest. Indeed, Carla Del Ponte, the court's chief prosecutor, came back from a visit to Serbia last month saying that Belgrade had told her that “they will give me Mladic”.

Few of these once-powerful gentlemen (and one lady) ever dreamed that they would—or could—be held to account for their past crimes. But times have changed. As Libya's president, Colonel Muammar Qaddafi, said anxiously when his former protégé, Liberia's Mr Taylor, was handed over to Sierra Leone's Special Court last year after three years on the run: “This means that every head of state could meet a similar fate. It sets a serious precedent.” Fingers crossed.

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Global public health

More money than sense

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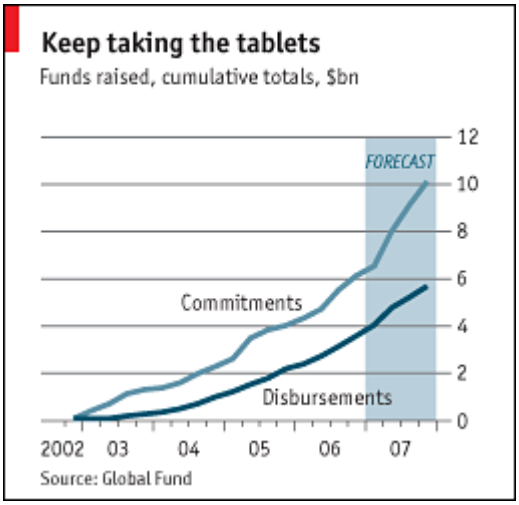
Lack of money can no longer be blamed for the poor world's health problems



THE money is there. So why is it not being spent? That is the big puzzle about the rich world's efforts to improve health in poor countries. In June the leaders of the G8 (the big industrialised democracies plus Russia) promised up to $8 billion to the Global Fund to Fight AIDS, Tuberculosis and Malaria, an umbrella group co-ordinating health aid. The Global Fund closed its latest round of funding applications this week but much of the money committed remains unused (see chart).

Officials at the fund insist that all is fine: disbursements always lag commitments and money can be released only if it will be spent effectively. But experts such as Joseph Dwyer of Management Sciences for Health, an American consultancy, say that the pitiful state of poor countries' health services is the main reason for the gap between what is promised and what is spent. Julian Schweitzer of the World Bank says that physical and human shortages in local health services represent “a huge bottleneck to aid”.

Now the aid bonanza may be making things worse. Jordan Kassalow of the Scojo Foundation, an American charity, observes that rich single-issue outfits tend to divert the best medical talent to trendy causes and away from basic medicine against diarrhoea and respiratory infections—the chief killers of children.

Laurie Garrett of the Council on Foreign Relations, a think-tank, has a different worry: that anti-corruption efforts have pushed donors into an obsession with often meaningless short-term targets. The result is a never-ending stream of bumph and meetings. A sharp focus on process and targets ordained from on high makes it harder to be flexible and innovative or to take advantage of enterprising locals. In poor countries, laments Ms Garrett, “we almost spit on the private sector.”

But it is the private sector that may offer the most practical chance of progress. Fed up with the costs of an unhealthy workforce, many big local and multinational firms in Africa and Asia are now offering their own innovative health schemes. These started as simple anti-AIDS efforts at mining firms such as Anglo American. Now they have spread. HSBC, a London-based international bank, recently started a scheme to improve its suppliers' and customers' health. Marathon, an American energy company, helped eradicate malaria in part of Equatorial Guinea, where it has a big liquefied natural-gas project. That has helped avert 150,000 cases in the first year, saving locals the 6% of annual income they previously spent on anti-malaria drugs.

The Acumen Fund, a venture-capital outfit specialising in poor-country projects, has financed a factory in Tanzania that makes impregnated bednets. Even poor consumers will pay a dollar or so apiece. That is proving a more effective distribution channel than giving them away free.

In training, too, private-sector and voluntary efforts may work better than official programmes. The International Centre for Equal Healthcare Access has trained thousands of local health-care workers in South-East Asia. Kenya's HealthStore Foundation has helped nurses and community health workers set up dozens of for-profit clinics that reach patients government clinics don't. Bill Clinton's charity has also helped cut the cost of anti-HIV drugs by helping governments bargain more effectively with generic producers.

Dr Kassalow's charity trains local entrepreneurs to do simple eye tests. It makes spectacles for $1 and

sells them for $2. The franchise-holders sell them for $3. Profitability means sustainability, he argues; Western-style training offers higher-quality care in theory—but is too expensive in practice. What poor countries need is lots of people, trained flexibly and quickly, at lower levels of skill, he says. Workers trained this way are more likely to stay in the villages where they are needed.

Such ideas may yet transform the world's most dilapidated health systems into better and more far-reaching ones—if only the current wave of top-down spending does not drown them out.

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Tobacco

Snuffed out

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The anti-smoking bandwagon rolls on

SMOKERS in England, where a sweeping smoking ban came into force on July 1st, may not be biting their nails alone for long. An international anti-smoking agreement, the Framework Convention on Tobacco Control, is expected to be approved by the World Health Organisation this week.

The aim is to stiffen the resolve of poor countries' health ministries. Dr Ahmed Ogwell, Kenya's chief delegate to the drafting conference, says it will help him take on the local tobacco industry, which has "consistently interfered with legislation designed to protect our people and workers from second-hand smoke." Lawsuits offer another way forward: four Nigerian states want $38.6 billion from British American Tobacco and Philip Morris International to recover the costs of treating smoking-related diseases. The pushers tried to get children hooked, they say; the firms deny it.

But smoking bans mostly dent consumption only briefly. JP Morgan, an investment bank, forecasts "robust growth" for the global tobacco industry. And an increasingly hostile legal environment in the rich world is encouraging tobacco companies to invest heavily in the poor countries. These are where most of the world's 1 billion male and 250m female smokers live. Nearly a third are in China alone. Half the 5m annual tobacco-related deaths are in Asia.

So Philip Morris, for example, is launching a clove-flavoured cigarette in Indonesia, the world's fifth-biggest tobacco market. The Marlboro man has not coughed his lungs out just yet.

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Europe's railways

A high-speed revolution

Jul 5th 2007 | BRUSSELS, FRANKFURT, PARIS AND STRASBOURG
From The Economist print edition

European railways form an alliance to promote swifter international travel

AS THE fastest train in Europe reaches its top speed of 320kph (200mph) the glasses of wine on the bar barely wobble. Champagne country is a blur as the train tears along Europe's newest high-speed line—the first to link France and Germany. France's *Train à Grande Vitesse* (TGV) can now travel between Stuttgart and Paris in only three hours 40 minutes instead of six hours. The latest generation of Germany's Inter-City Express (ICE) trains has similarly shrunk the journey time between Frankfurt and Paris.

This week high-speed railways in France, Germany, Belgium, the Netherlands, Austria and Switzerland joined with existing international services, such as the cross-channel Eurostar and the Paris-Brussels Thalys, to form Railteam, a new marketing alliance. The aim by the end of next year is to have one website that will allow travellers to view timetables and prices and, with one or two clicks, book tickets from one end of Europe to another. At the European Commission's insistence, Railteam members will compete on prices, though there could be some tricky moments as some of them team up to take on airlines.

Europe is in the grip of a high-speed rail revolution. Four new lines are opening this year and next, with trains running up to 320kph (see map). The eastern France TGV line is the first, to be followed in November by a new link from the Channel Tunnel to a new rail hub at London St Pancras, connecting Britain's first really fast line to the rest of the network. Paris will be only two hours 20 minutes away, and Brussels less than two hours. By 2008 Brussels will have new high-speed links to Amsterdam and Cologne. Railteam's aim is to increase high-speed passengers from 15m a year today to 25m by 2010.

The opening of the TGV-Est last month marked a huge change of heart for France. Its high-speed rail network has been spinning a web from Paris to the corners of the French hexagon since the mid-1970s. But now the TGV-Est wires France into the heart of its biggest neighbour, Germany, and gives birth to a joint venture between the French and German state-owned railways, SNCF and Deutsche Bahn (DB).

Although joint ventures between state-owned rail champions and a grand Railteam marketing alliance might not seem an ideal way of introducing a new level of competition into an industry long regarded as rusty, it is an important start. International passenger-rail services in Europe will be opened up to competition from January 2010. It could lead to a dramatic liberalisation of Europe's railways, akin to that of its airlines. Europe's open skies led to more privatisation of state airlines and the emergence of new, low-cost carriers such as easyJet and Ryanair. If Europe's railway revolution stays on track, an easyTrain or Ryanrail could emerge.

The prospects for Europe's trains have hardly been better since the great age of steam. For decades planes, cars and lorries have been quicker, more convenient and usually more reliable ways to transport people and goods throughout much of Europe. But concern over climate change, hassles at overcrowded airports, delayed flights and congested roads have conspired with better high-speed rail technology to make the train an increasingly attractive alternative, and an especially green one: a full high-speed electric train emits between a tenth and a quarter of the carbon dioxide of a plane, according to the bosses of Eurostar.

Signalling problems

Nevertheless, running railways is an expensive business and integration across national borders is painful and fraught with technical and political obstacles. Much of the expense is shouldered by taxpayers, who pay for the dedicated high-speed tracks, but the train services that run on them mostly make a profit (though Eurostar has been dogged by losses relating to the Channel Tunnel).

Then there are the technical difficulties. Brussels has been piling up directives on inter-operability for the past 16 years. Yet apart from a few services such as Eurostar and Thalys, rail travel has remained national, with locomotives and drivers changing at borders and little in the way of through tickets or co-ordinated timetables. Harmonising high-speed train control systems is an expensive nightmare. Eurostar trains have four different power systems for France, Belgium, the Channel Tunnel and the London commuter lines they had to use while waiting for the high-speed link to open.

Another obstacle to change is that governments and trade unions regard railways as providers of stable jobs that are shielded from competition. So there has been much resistance to opening up the market, particularly in France and Germany. The hope is that a grand alliance, and joint ventures under its umbrella, stand more chance of breaking free from old constraints than attempts to strike separate deals on particular routes.

Vorsprung durch DB

There is no doubt that Germany's state-owned railway is at the forefront of Europe's rail revolution. Hartmut Mehdorn, chief executive of DB, has turned a chronic loss-making railway into a powerful international business which plans to float some 30% of its shares next year. It is already a world-class logistics company, with a global business based on its international rail-freight activity. That could prove to be a useful hedge against greater competition in passenger rail.

DB carries twice as much freight and three times as many passengers as SNCF and owns and operates more than 90% of Germany's rail network. Over 200 competitors, mostly small firms that bid for franchises to run local services subsidised by regional authorities, run trains on its tracks. But DB still dominates the long-distance and inter-city traffic. Only two rivals compete on long-distance passenger services: Veolia on the Leipzig-Berlin-Rostock route, and Georg Verkehrsorganisation, which runs night trains between Berlin and Malmo in Sweden.

State rail firms have the ability to foil smaller rivals and new entrants. One way DB does this is with access to its tracks: InterConnex, owned by Veolia (a French group), fought a losing battle to run a passenger service between Frankfurt and Cologne. It was only offered a track on the right bank of the Rhine, which is winding and subject to delays. Some believe this is why DB will not be allowed to retain full ownership of the rail network in its pending privatisation. But Mr Mehdorn more or less made keeping

the tracks a condition for staying when his contract was renewed for three years last month. Britain showed what can go wrong when track and train companies are separated: after the shambolic privatisation of British Rail the network company, Railtrack, collapsed and in effect had to be renationalised. Not surprisingly, there is little appetite to try anything similar on the Continent.

Over at SNCF the debates are different. Guillaume Pepy, SNCF's managing director, was taken aback when he was recently asked about privatisation. “No politician in France ever suggests privatising SNCF,” he replied. But even if privatisation is not on the agenda in France, that does not mean greater commercialisation has been ruled out. There will be no avoiding it once access to Europe's passenger lines follows the freight liberalisation that started last January. SNCF's union-bound freight business is suffering so badly in the new environment that it will probably need rescuing by a partly privatised DB. But both SNCF's charismatic president, Anne-Marie Idrac, who made her name rejuvenating the Paris Metro, and Mr Pepy are bullish about international high-speed passenger rail: they conceived Railteam.

How successful will the new high-speed lines be at taking business away from airlines? A big shift in passenger numbers would be more likely if airlines had to pay the same taxes that train operators do, namely value-added tax and a tax on fuel, both of which would push up air fares. But despite the resulting price disadvantage, high-speed rail still has many attractions. The added comfort of a train and the ability to walk about, eat in a dining car, work online or use a mobile phone—not to mention the lack of endless queues and security checks—mean that high-speed rail offers a good alternative to flying. Hence the razzmatazz on May 25th when SNCF and DB ran their first high-speed trains from Stuttgart and Frankfurt to Paris, under a joint venture called Alleo, which is part of Railteam.

There is more to the rivalry between rail and air than the experience in transit, however. Railways must compete in other respects, too. SNCF is justly proud of its airline-style yield management system (originally based on the expertise of Sabre, an offshoot of American Airlines), which fills up seats by pricing them according to demand. This booking-only system enables SNCF to fill over 80% of seats on average.

DB tried to introduce a similar system in 2003, but abandoned it because of opposition from politicians and consumer groups. They wanted DB to retain its turn-up-and-pay style of rail travel, which German passengers cherish. Karl-Friedrich Rausch, the head of DB's passenger business, consoles himself with the thought that although DB does not fill as many of its seats as SNCF, travellers can at least arrive at, say, Frankfurt airport's shiny new station and be sure that they can get an ICE train every half hour to Stuttgart or Munich without booking. One of the reasons for the German preference for hop-on, hop-off high-speed trains is that stage lengths are shorter than in France, where the population is more spread out, with fewer big towns. One German idea adopted by Railteam is that frequent travellers will be able to board the next train and get a guaranteed seat if they miss a connection because of a delay.

Reuters

Move over, aeroplanes

Mr Rausch, who used to work for Lufthansa, reckons airlines are 15 years ahead of railways in the way they manage their businesses. But he is doing his best to catch up. He is concentrating initially on the improvements to customer service that trains can offer. DB already runs co-ordinated services with Lufthansa that allow travellers to transfer from a plane to a train with a single ticket, for example. Mr Pepy at SNCF reckons that when rail networks are opened up in 2010, airlines such as Lufthansa and Air France-KLM will start operating their own train services. Mr Rausch is more cautious. He thinks open access will take some years to become a reality and that airlines will probably get involved only as partners to train operators.

Whether through competition, co-operation or both, a plethora of European directives such as the “Railway Interoperability Directive” and the “Third Railway Package” will encourage the emergence of this new era of international rail travel. Rail bosses note that on six-hour journeys they are typically winning more than 60% of the leisure market from airlines. The same is happening with business travellers on four-hour journeys. It may be a while before you can choose between a French TGV or a German ICE to ride to Bucharest or even Naples. But as when Lenin sped in his sealed carriage through war-torn Germany 90 years ago, the train of revolution has left the station.

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Chinese manufacturing

The diddle kingdom

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Tainted Chinese goods prompt safety scares around the world

Get article background

IT HAS been a rough few months for China's exporters. In March tainted pet food originating in China was found to be killing animals in America. Since then Chinese shipments of toxic toothpaste, toys and seafood, as well as hundreds of thousands of faulty tyres, have all caused big safety scares. The defective goods that have long bedevilled Chinese consumers are beginning to spread to the outside world—a trend that is exacerbating concern about China's burgeoning exports.

Tales of dangerously shoddy manufacturing within China are nothing new. In 2004 bogus baby formula killed dozens of infants. More recently the Chinese media have reported half a dozen dead and many ill from a flawed antibiotic, 11 dead from tainted injections, 56 people ill as a result of contaminated meat, toxic snacks pulled off shelves and fake blood protein discovered in hospitals. In May the head of the agency that regulates Chinese food and drugs, Zheng Xiaoyu, was sentenced to death for accepting bribes in exchange for licences to produce fake drugs and medical devices. And this week a report from the General Administration of Quality Supervision, Inspection and Quarantine, China's standards watchdog, said that 20% of domestic products tested had failed to meet safety standards.

But safety lapses have only recently begun to attract the attention of foreigners. On July 1st Charles Schumer, an American senator who is a vocal critic of China, issued a report noting that 60% of goods recalled by America's main safety regulator came from China. In June alone, the report says, dangerous faults or poisons prompted the recall of 68,000 folding chairs, 2,300 toy barbecue grills, 1.2m space heaters, 5,300 earrings, 1.5m “Thomas the Tank Engine” toy trains and 19,000 children's necklaces. America's Food and Drug Administration has also rejected several shipments of contaminated food from China this year, and a wholesaler in New Jersey has recalled Chinese chocolates containing potentially carcinogenic ingredients.

Skittish Americans are not the only ones worried about Chinese exports. In Panama around 100 people are reported to have died after ingesting tainted cough syrup from China. In Hong Kong, stores routinely sell staple goods such as eggs and milk from China more cheaply than those from other countries—a good indicator of the perceived danger. Legislators in the territory upbraided the government for lax safety standards on July 4th. In response, it pledged to develop a food supply “traceability system” to find and remedy problems at their source—in China. The European Union has also expressed concern.

Poor countries where manufacturing is booming often struggle to maintain quality standards at first. “Made in Japan” and “Made in Korea” were once synonymous with shoddiness. Post-war Japan was also an environmental disaster. Eugene Smith's photographs of the victims of mercury poisoning in Minamata Bay became international symbols of industrialisation gone awry. But the Chinese government's reflexive secrecy, as well as widespread corruption and tight curbs on the press, probably make matters worse.

Mr Schumer fears that many faults are never detected. After all, in America as in most countries, only a relatively small proportion of imports is inspected. Moreover, numerous agencies have the power to monitor and block shipments, creating a bureaucratic quagmire. He proposes an import tsar to oversee the scrutiny of Chinese goods. But critics of the proposal fear that such a figure would be susceptible to political pressure, and would soon resort to protectionism in the name of safety.

Besides, the problem might be solving itself. One manufacturer in southern China recalls how a factory dumped dyes in the water supply in the 1990s, turning all the locals' clothes blue—and doubtless wreaking havoc with their insides too. That factory has now closed. Another manager recalls appalling conditions at a juice factory that led, mercifully, to closure. Today a more typical factory would be one of PepsiCo's Chinese plants, he says, with safety standards among the most stringent in the world.

Such improvements are driven by enlightened self-interest. Many manufacturers are aware of what a slur the phrase “Made in China” has become, and are taking precautions to preserve their reputations. Small and ill-supervised suppliers and subcontractors have been responsible for many of the worst disasters. So Coca-Cola has banned its subcontractors from subcontracting again, to ensure strict quality control. McDonald's, aware that one bad hamburger could destroy its reputation, has gone even further, setting up a whole proprietary supply chain within China with more than 40 facilities producing beef, chicken, lettuce, cucumbers, rolls and even special sauce. And companies such as Li & Fung vie to help manufacturers monitor their supply chains and improve the quality of the goods they buy.

Perhaps the most encouraging aspect of the recent scandals is that they are emerging at all. For the first time in decades, the Chinese government has gone so far as to appoint respected professionals who are not members of the Communist party to run the ministries of science and health. Both of the ministers concerned have studied and worked in Europe. The better they do their jobs, the greater the number of scandals and problems that are likely to emerge. Last week the government said it had shut down 180 food factories in the past six months. If the quality of Chinese manufacturing is to improve, the first step is to expose its flaws.

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Food

No ketchup, please

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Kraft has bid for Danone's biscuit unit. That's the way the cookie consolidates

“WE ARE not yet ready to put ketchup on our *petits* LU,” said Christine Lagarde, France's economy minister, after Kraft announced on July 3rd that it had offered €5.3 billion ($7.2 billion) to buy Danone's biscuit business. Ms Lagarde said she would pay great attention to the American food giant's bid for the maker of LU, Prince, TUC and other biscuit brands familiar to every household in France. But she conceded that this was a private matter between two private firms.

Indeed, compared with the storm of protest two years ago when America's PepsiCo was rumoured to be considering a hostile bid for Danone, French politicians and union leaders reacted with unusual restraint to Kraft's offer. Franck Riboud, Danone's chief executive, went to great lengths to prepare the ground. In talks over the past few months he made Irene Rosenfeld, Kraft's boss, promise that French factories would not be closed and the headquarters of the biscuit business would remain near Paris for the next three years.

Mr Riboud is keen to sell his biscuits. Last year sales of cookies and crackers grew by just 3.1%, compared with 9.2% for dairy products and 14.8% for bottled water, Danone's two other product lines. Nor do biscuits fit with the company's hyper-healthy image. Danone once dabbled in glass, ready meals, beer and confectionery. But concentrating on fewer lines—and making each of them number one or two worldwide—has driven its success. “In two years the growth rates of water and dairy will make up for the loss of biscuits,” declared Mr Riboud confidently.

Kraft, meanwhile, wants to expand internationally. Since Ms Rosenfeld took over a year ago, investors have pushed her to expand into faster-growing markets abroad, to sell underperforming operations and to increase the firm's leverage. The maker of Oreo cookies, Philadelphia cream cheese and Post cereals is the leader in four-fifths of its markets in America, but in Europe and Asia it is much weaker. Danone, by contrast, is the top dog in Europe and has 25% of sales in emerging markets.

The pressure on Ms Rosenfeld to make a move increased when Nelson Peltz, an American activist investor, recently bought 3% of Kraft. Mr Peltz specialises in shaking up food firms. He owns 3% of Britain's Cadbury and successfully persuaded it to separate its confectionery arm from its soft-drinks operation. He also owns a 5% stake in Heinz, an American ketchup-maker, and 5.5% of the shares of Tiffany, an American jeweller (his only big non-edible investment). On July 3rd Mr Peltz said that he was considering a bid for Wendy's, an American hamburger chain, in which his investment company already owns a sizeable stake.

What will Danone do with Kraft's money? It will make acquisitions, says Mr Riboud, but they will not necessarily be the ones that everyone expects. Analysts and investors think Danone is looking at Numico, a Dutch firm that makes baby food; Yakult, a Japanese yogurt-maker, and Wimm-Bill-Dann, a Russian maker of dairy products and juice. Wimm-Bill-Dann is considered the most probable target, given its fit with Danone's existing products and its stated desire for “extreme focus”. Alternatively, Mr Riboud could opt for several smaller takeovers, or go for a share buy-back or special dividend.

Yet slimmed down to two highly profitable businesses, could Danone itself become a takeover target? Andrew Wood, of Sanford Bernstein, an investment-research company, does not think that is likely. Nestlé, the biggest food firm, says it is not interested. Nor is Danone a great fit for Coca-Cola. It might be for PepsiCo, which also makes snacks, but PepsiCo has had its fingers burnt once already by Danone.

Mr Peltz is likely to push for more changes at Kraft, such as the sale of Post cereals or Maxwell House coffee. But he is probably sizing up his next target, too. Could it be Unilever? The Anglo-Dutch consumer-goods giant remains weak despite the work of Patrick Cescau, who took over as boss in 2005. Yet it is a tricky company to take on: big, complex and incorporated in two countries. But Mr Peltz is not a man to shy away from a challenge.

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The music industry

A change of tune

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From The Economist print edition

Faced with shrinking profits, record labels are touting a new approach

Get article background

IT HAS become a familiar refrain. For years record labels, citing tumbling CD sales blamed on internet piracy, have decried the decline of the music industry. The reality is rather more subtle, as Edgar Bronfman, the chairman of Warner Music, a big record company, pointed out last month. “The music industry is growing,” he told an investor conference in New York. “The record industry is not growing.”

Indeed. Seven years ago musicians derived two-thirds of their income, via record labels, from pre-recorded music, with the other one-third coming from concert tours, merchandise and endorsements, according to the Music Managers Forum, a trade group in London. But today those proportions have been reversed—cutting the labels off from the industry's biggest and fastest-growing sources of revenue. Concert-ticket sales in North America alone increased from $1.7 billion in 2000 to over $3.1 billion last year, according to *Pollstar*, a trade magazine.

Frustrated record companies have responded by trying to get their artists to spend more time promoting records and less time touring and endorsing products, says Jeanne Meyer of EMI, another big record label. “Sometimes you've got a tug of war going on,” she says. Yet the more labels spend on marketing pre-recorded music, the more they raise their artists' profiles and boost their other, more lucrative, sources of income. Pre-recorded music, no longer the main cash cow, increasingly serves merely as a marketing tool for T-shirts and concert tickets. The best seats for The Police's world tour this summer cost over $900; the group's entire catalogue on CD costs less than $100.

Record labels have come up with a remedy: the “360° contract”. Instead of settling for a cut of CD sales, they increasingly offer artists broader contracts that encompass live music, merchandise and endorsement deals. Such deals, also known as multiple-rights or all-rights contracts, are particularly important in regions with rampant CD piracy, such as Africa, Asia and Latin America. “The market has made it necessary—we've got to look for something else,” says Manuel Cuevas, an industry executive in Mexico City. His company, the Mexican subsidiary of a major label, decided earlier this year to adopt the 360° model. “It's a discussion you have with every new artist now,” says EMI's Ms Meyer.

Although record labels like the idea, artists are unsurprisingly less keen. Few established artists have accepted 360° deals, though the labels trumpet the exceptions, including Robbie Williams, the Pussycat Dolls and Korn. It is more profitable, the artists say, to stick with artist-management agencies, which have traditionally handled the job of cultivating careers beyond the realm of recordings.

Management agencies are also considered to have more respect for their artists' interests. Record labels, for example, have been criticised for obtaining rights to the names of artists and bands for use in internet addresses. Some clauses stipulate that name ownership applies even after contracts expire or artists die. This can prevent musicians from launching websites to promote tours, sell merchandise, and communicate with fans as they see fit. “Record companies don't exactly give many artists the warm, fuzzy feeling,” says Gary Bongiovanni, the editor of *Pollstar*.

Musicians with small fan bases and little business experience are much more receptive to the idea of 360° deals. There is no shortage of aspiring artists, and some will become big names. Juha Ruusunen, the founder of TWU, a small management agency for heavy-metal bands based in Jyväskylä, Finland, says European labels have begun to sign up new talent with 360° contracts. As record labels move more aggressively into the artist-management field, Mr Ruusunen worries that his agency might struggle to compete.

Building a roster of 360° talent, one deal at a time, is slow going. It is quicker for labels to buy artist-management agencies. Last month Universal Music made a £104m ($205m) offer for Sanctuary, a

struggling British label with a management arm that represents musicians including Elton John and Robert Plant. Sanctuary also owns two other artist-management companies and runs Bravado, a merchandising operation. Sanctuary's shareholders will decide whether to accept Universal's offer, which is considered generous, this month.

For its part Warner Music has expressed interest in Front Line Management, one of America's biggest agencies. And last month Warner announced the formation of Brand Asset Group, an artist-management joint venture with Violator Management, a firm that negotiates roles for rappers in films, advertisements, video games and TV programmes, and licenses their names and images to promote drinks, books and clothes. (Its clients include 50 Cent, Diddy and Busta Rhymes.)

The shift away from recorded music is due in part to the recognition that touring and merchandise are more lucrative. But it may also be a consequence of internet piracy, as free downloads give music fans more money to spend on other things. Jwana Godinho, the director of Música no Coração, a concert promoter in Lisbon, thinks many music lovers have a “mental budget” that they are prepared to spend on music, and have switched their spending from CDs to tickets and merchandise.

The logical conclusion is for artists to give away their music as a promotional tool. Some are doing just that. This week Prince announced that his new album, “Planet Earth”, will be given away in Britain for free with the *Mail on Sunday*, a national newspaper, on July 15th. (For years Prince has made far more money from live performances than from album sales; he was the industry's top earner in 2004.) Outraged British music retailers were quick to condemn the idea. As far as the record industry is concerned, it is madness. But for the music industry, it could well be the shape of things to come.

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Marketing the iPhone

Where would Jesus queue?

Jul 5th 2007 | EMERYVILLE, CALIFORNIA
From The Economist print edition

Apple accomplishes a marketing feat to be envied and studied

EPA

One of the faithful gets his reward

THE blogosphere had already christened the iPhone, an allegedly revolutionary handset made by Apple, the “Jesus phone” weeks before it went on sale. The actual launch day, June 29th, became known as “iDay” among Apple cultists. Queues started forming days in advance at many of Apple's 164 shops in America. Depending on the location, the scenes had flavours of Woodstock, Mardi Gras, or—in Silicon Valley's Palo Alto, say—an Apple programmers' conference. Pizza deliverymen did a brisk trade catering to the waiting masses. Steve (“the Woz”) Wozniak, who co-founded Apple but has since parted ways with it, could have got an iPhone through connections, but waited in line just for the experience. Just before 6pm, Apple's staff led countdowns more energetic than many on December 31st 1999. The first shoppers to emerge victorious were cheered as heroes and brandished their trophies for the cameras.

Estimates of the number of iPhones sold over the weekend range from 500,000 to 1m; many stores ran out. Rarely have so many been so ecstatic to part with $499 or $599, depending on the model. Sobriety returned later that night, when many love-drunk new owners found that the activation systems of AT&T, the telecoms giant that provides wireless service for the iPhone in America, were overwhelmed. Once activated, it turned out that even Jesus phones have flaws. But why dwell on that?

AT&T's rivals, Verizon and Sprint, issued “talking points” to their salespeople, with helpful hints for impugning the iPhone's divinity. They lost customers anyway. Executives at Motorola and other phonemakers were spotted in various stages of shock and awe at the cultural impact that the launch of a handset—a handset!—could have. Honchos in all sorts of industries have long studied keynote speeches by Steve Jobs, Apple's boss, for ways to cast spells on audiences; now they also need to work out how he outsourced his product marketing to an entire nation of volunteers.

As this correspondent was queuing at an Apple store in Emeryville, California, a little girl walked past. Inexplicably, she was not aware of the historic significance of the day. “What are you all standing in line for?” she asked. “Zunes!” shouted a snob far in the back, and everybody within earshot was in stitches for minutes. Zunes, you see, are devices sold by a company called Microsoft that were meant to rival Apple's iPod. A lot of marketing dollars went into them; but unable to inspire Apple's brand of religious fervour, they are now merely an obscure punch line.

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Theme parks

Roll up, roll up

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From The Economist print edition

The theme-park industry is working hard to find new sources of growth

THINK of theme parks and you think of rollercoasters. The surreptitious checking of the seat restraints, the stomach-churning climb and the visceral thrill of the drop are the hallmarks of a park visit. But as a metaphor for the industry, the rollercoaster is all wrong. Making money from theme parks is a hard grind, not a heady rush. And coasters are not where the best chance of revenue growth lies.

This week's July 4th celebrations marked the beginning of the summer season for America's theme parks. Around the world, another year of moderate growth is expected: global attendance grew by 2.2% in 2006. Growth is slowest in the mature markets of North America and Europe, though the prospects look better in Asia. Scope to raise entry prices is limited by competition. At $300m or more, the economics of building a new park are “brutal”, says Raymond Braun of Economic Research Associates, a consultancy.

In response, operators are concentrating on improving the customer experience, making greater use of their facilities and turning parks into multi-day destinations. Stronger theming helps to make a park more distinctive. Greater interactivity is also important, according to Craig Hanna of Thinkwell, an attraction-design company. The “Men in Black” ride at Universal Studios in Orlando, Florida, in which passengers shoot at animatronic aliens, is a good example of what industry types like to call an “immersive” experience. Discovery Cove, another Florida park, takes that term literally, charging visitors premium prices to swim with dolphins and other animals.

Packing more people into parks risks turning visits into a series of queues punctuated by rides, rather than the other way round. “Queuing is a big bugbear,” says Mark Fisher of Merlin Entertainments, which operates four Legoland parks as well as a string of other attractions. One answer is to break up the monotony by putting entertainers into the queue. Another is to offer ride-reservation systems or special tickets that let people book a place in line without having to queue.

Getting people through the park more efficiently is one way to increase the use of facilities. Extending the season is another. Tivoli, a park in the heart of Copenhagen, introduced a ten-day Halloween season in 2006 to sit alongside its summer and Christmas openings. “We used to be a seasonal business and now we are more or less a full-year business,” says Lars Liebst, the park's chief executive.

Following in the footsteps of Disney, the industry gorilla, parks are also rushing to turn themselves into destination resorts where families can stay for several days rather than just one. Merlin has just opened hotels at Heide Park in Germany and Chessington World of Adventures in Britain. Extra attractions help to provide the scale to justify a lengthier stay. Merlin, which has grown through acquisitions to become the industry's second-biggest operator, has a portfolio of brands that it can mix and match. Sea Life Centres, which are aquarium attractions, will soon be added to Gardaland, Merlin's Italian park, and to Legoland California. The Legoland Discovery Centre, a new city-centre format launched earlier this year in Berlin, will be rolled out to other parks, says Mr Fisher.

As squeezing growth out of existing parks becomes harder, operators are also looking to new markets. Indoor city-based attractions, which are cheap to build and easy to get to, have plenty of potential, even in mature markets. Emerging markets look promising, too. Asia's top ten parks recorded attendance growth of 4.4% in 2006, much of it driven by Hong Kong Disneyland's first full year of operation. In Dubai, work has begun on a huge development called Dubailand. As consumers in developing markets become wealthier, the industry will look a lot more thrilling.

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Management

Piecing things together

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What companies can learn from playing with Lego

WHEN recruiting at British universities, PricewaterhouseCoopers, a consultancy, presents candidates with an unusual exercise. They are asked to build a tall and sturdy tower using the smallest possible number of snap-together Lego bricks. Similarly, at Google Games, a recruiting event first staged by the search-engine giant in April, candidates are invited to build Lego bridges—the stronger the better. In each case, the company is trying to convey the idea that it offers a creative, fun working environment. “It was as much advertising as a way of trying to get recruits,” says Brett Daniel, a student at the University of Illinois at Urbana-Champaign who built the Google Games' weakest bridge.

The eponymous Danish firm, based in Billund, Denmark, has embraced the corporate use of its coloured plastic bricks. As part of a scheme called “Serious Play” it is certifying a growing number of professional Lego consultants, now present in 25 countries. They coach managers by getting them to build “metaphorical abstractions” of such things as corporate strategy, says Lego's Jesper Jensen, who runs the scheme. Hisham El-Gamal of Quest, a management consultancy based in Cairo that offers Serious Play workshops, says demand for the two-day, $7,000 courses is booming.

Firms in crisis, such as those besmirched by scandal or in the throes of a takeover, tend to be most receptive to the idea of Lego workshops, says François de Boissezon of Imagics, a consultancy based in Brussels. The results can be embarrassing, particularly for senior managers. Tsai Yu-Chen of UGene Mentor, a Serious Play consultancy based in Taipei, says a common exercise is modelling, but not naming, “the people you hate most”. One chief executive was modelled as a figure so fat that he blocked a hallway, suggesting he was clogging up the company.

Lego workshops are effective because child-like play is a form of instinctive behaviour not regulated by conscious thought, says Lucio Margulis of Juego Serio, a consultancy in Buenos Aires. This produces “Eureka” moments: a perfectionist who realises the absurdity of frustration over an imperfect Lego construction; the owner of a firm with dismal customer relations who models headquarters as a fort under siege; or an overbearing boss who depicts his staff as soldiers headed into battle. Even in the office, it seems, Lego has a part to play.

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Face value

The man who bought trouble

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REA

Rafael del Pino's nightmare purchase: Heathrow airport

ON THE eve of his second marriage last summer, Rafael del Pino formed another union when Ferrovial, the firm he runs (and which his family largely owns), led a consortium that bought BAA—the company that owns London's Heathrow, Stansted and Gatwick, and four other British airports. The cunning £10 billion ($20 billion) deal cost Ferrovial barely £580m of its own money, though it caused the group's debt to soar to some £22 billion—about three times its market capitalisation. It also brought other burdens. Within weeks new security measures had been imposed at Heathrow after a serious terrorist threat, and as security clearance slowed to a crawl, thousands of frustrated travellers were soon sweltering in makeshift tents erected in car parks. Last weekend's attack on Glasgow airport and a mid-week bomb scare at Heathrow's Terminal 4 seem to presage another summer of strain.

Heathrow's difficulties start with the fact that, having been built to cope with 45m passengers a year, it actually handles about 70m. But that alone does not explain its problems. BAA was lambasted for failing to lay on enough extra security staff to cope with the crush, for example, but unions had threatened to call a strike if the company outsourced extra work to contractors. Since last year things have gone from bad to worse, as Britain's media have rounded on Heathrow for its embarrassing chaos and squalor. Heathrow may have glittering shopping malls, but its passenger handling, security screening and toilets are more reminiscent of a third-world airport. BAA is widely accused of treating passengers primarily as shoppers, rather than travellers.

These are not the sorts of problems that Mr Del Pino, as the boss of a construction and infrastructure multinational that has long outgrown its Iberian roots, is used to dealing with. Ferrovial's projected revenues of €14 billion ($19 billion) this year will come from designing, financing, building, operating and maintaining toll roads, airports and car parks, and providing waste management and other “urban services” in 140 countries, with a workforce of 100,000. Mr Del Pino became the second-richest man in Spain when the firm his father founded 55 years ago was floated in 1999. Yet grotty Heathrow is close to his heart. Buying BAA propelled Ferrovial into the big league and it now accounts for more than half his firm's profits and 70% of its debt. Ferrovial's shares have lagged the Madrid stockmarket since the deal, as worries about its level of gearing in a world of rising interest rates are compounded by the reputational risk of running the world's most-loathed airport. The fact that Britain's competition watchdog is carrying out one of its periodic studies into breaking up BAA's monopoly grip on London's three main airports only heightens the risk and depresses Ferrovial's shares.

It is tempting to conclude that the dapper Mr Del Pino has bitten off more than he can chew, but he handles all this pressure with Castilian aplomb. He insists that he is part of the solution, not the problem. Having taken over at Heathrow, he and his team were staggered by the low operational standards at the airport and the poor performance of subcontractors doing cleaning and maintenance. They have spent the past year shaking up the management—the British bosses who allowed such slackness have nearly all left—and renegotiating with subcontractors. “I get the impression we are the first owners to really care about the business,” says Mr Del Pino. “We are getting all the flak for things that went wrong in the past. We have already spent some £75m that we will not get back to start putting things right. We expected to be praised for that, rather than be crucified.”

What of the accusation that BAA places too much emphasis on retailing? In implicit acceptance of this criticism, BAA has started removing some shops to make room for much-needed extra security lanes. This week there was even speculation that it might sell off its retail operation altogether. The heavy emphasis on shopping at Heathrow is due in large part to the airport's wonky economics. Landing charges are one-third lower than at New York's JFK and Newark airports, but BAA cannot raise its landing charges without regulatory approval from the Civil Aviation authority (CAA). So when BAA was privatised in the 1980s, it turned the airport into a retail park in order to make ends meet.

Collision course

But Mr Del Pino is in a bind. Having capped BAA's pre-tax rate of return at 7.75%, the CAA now wants to reduce the cap to 6.2%. “We take pride in what we do, but we want incentives for becoming more efficient,” says Mr Del Pino. He is threatening to hold back the investment that will be needed to bring Heathrow up to scratch for the 2012 Olympics unless the CAA offers him a better deal. Terminal 5, due to open next year, will no doubt be wonderful; but it is reserved for British Airways and its airline-alliance partners. Some 60% of passengers will still be stuck with Heathrow's horrid old terminals. Mr Del Pino wants to knock down and rebuild Terminal 2 to create a new Heathrow East terminal. But he says he will do so only if he is allowed to increase landing charges. Given Heathrow's lousy service, airlines have good grounds for resisting such an increase.

Mr Del Pino seems to have little room for manoeuvre. But defending the credibility of his company and reviving its sagging share price depend on fixing things at Heathrow. He has layers of management below him and a global business to run, yet Mr Del Pino has detailed knowledge of the airport's operations. He knows about the clunky security lanes and the chaotic queues: the queue lengths at check-in and security are recorded every 15 minutes and reported each week to Ferrovial's board. He knows how filthy the toilets are, because he checks personally. “I started as a young civil engineer building bridges—now I clean toilets at Heathrow,” he reflects. It is a dirty business, but Mr Del Pino seems dedicated to cleaning up the mess at Heathrow.

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Clarification: Barilla

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Our story on Barilla ("Big portions", June 23rd 2007) reported that the company eventually plans to exit the bread business by selling its stake in Kamps, a German breadmaker. Barilla wishes to make clear that its plan to restructure Kamps and float it by 2010 remains unchanged. The company also says that the correct figure for Kamps' contribution to Barilla's €480m operating profit last year is €67m, not zero as previously stated.

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Public v private equity

The business of making money

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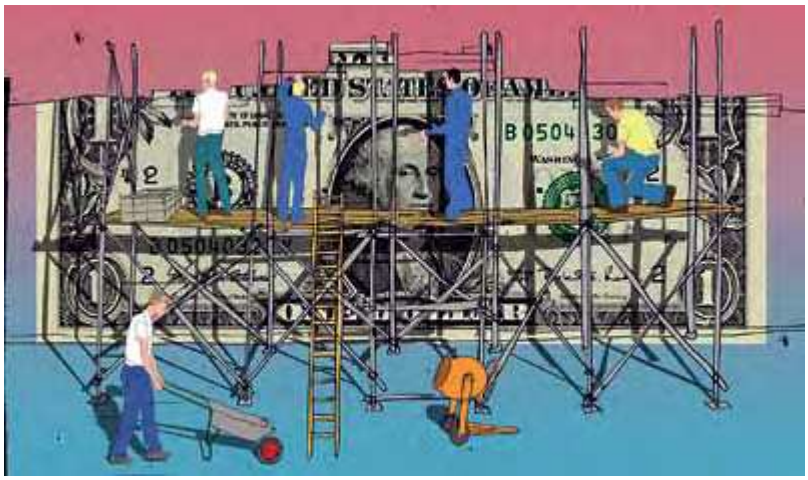
Daniel Mackie



Private equity's strengths and its increasingly apparent weaknesses

BACK in the late 1980s, the *Financial Times* carried a spoof story about a planned buy-out of General Motors. Nowadays the sale of such a giant would not be regarded as a joke. Every day yet another company seems to succumb to the clutches of private equity. And this week saw what could be the biggest deal ever: a $48.5 billion offer by a consortium of investors for BCE, a Canadian telecoms group. It was swiftly followed by a potential $22 billion bid for Virgin Media, a British cable-television company, and the $26 billion purchase of Hilton Hotels.

Even after those deals, the private-equity titans have plenty of firepower left. According to Private Equity Intelligence, a research group, the industry raised $240 billion in the first half of this year, leaving it well placed to surpass last year's record of $459 billion. That compares with less than $10 billion raised in 1991. In the process, private equity's share of mergers and acquisitions has grown massively (see chart).

Private equity has become a byword for money-making skills. “Why are we here attending conferences when we should be setting up private-equity firms?” quipped Niall Ferguson, a historian, at a conference held at the London Business School on July 2nd. But the industry's wealth has also made it plenty of enemies, with trade unions and left-wing politicians calling for curbs on its activities and higher taxes on its earnings.

The intellectual argument in favour of private equity has not changed much in 20 years. In 1989 Michael Jensen, of the Harvard Business School, wrote a paper* suggesting the public company had outlived its usefulness. Economic developments, in particular the recession of the early 1990s, made that forecast seem premature. But its underlying arguments have more force today.

Public tedium

Life is no longer much fun in a publicly quoted company. Executives have to suffer the slings and arrows of intrusive media coverage, the oppressive tedium of “box-ticking” corporate-governance codes, the threats of activist investors and short sellers, and the scrutiny of single-minded political campaigners.

And what do companies get in return? Traditionally they have had three main reasons to list their shares on a stockmarket. The first is to raise capital, either to expand the business or to allow the founders to realise their wealth. The second is to help retain staff, who can be offered share options as an incentive to stay and work hard. The third involves prestige; customers, suppliers and potential employees may be reassured (and attracted) by the apparent seal of approval given by a public listing. However, all three reasons seem to be less compelling than they used to be.

Historically companies have got their equity capital from four sources: pension funds, insurance companies, mutual funds and retail investors. The first three groups faced legal or regulatory impediments to buying unquoted shares, while the public naturally valued the liquidity a stockmarket listing could bring.

In the absence of a public quote, companies often had only one financial alternative: the banks. In some areas of the world this worked quite well. Banks were reliable partners to Germany's Mittelstand of unquoted companies and to Japan's industrial empires. But in the Anglo-Saxon economies companies often felt nervous about being in hock to the banks. A change in lending policy, due to new management or an economic downturn, could lead to the sudden withdrawal of credit.

Nowadays companies have many more options when it comes to raising money. Banks are much less important as a source of lending; they have been “disintermediated” by capital markets. Banks might arrange loans, but they quickly offload them to outside investors such as hedge funds. Bond markets are much more liquid than they used to be, and thanks to high-yield products even companies with a poor credit-rating can tap them.

Then, of course, there is private equity. It can provide finance at an early stage (venture capital) or as an attractive alternative for companies that have a public quote (the leveraged buy-out). Whereas pension funds will be reluctant to hold a direct stake in an unquoted company, they are willing to pay hefty fees to private-equity firms to invest money on their behalf.

So companies have no difficulty in finding capital outside the public market these days. Just as importantly, in recent years they have had little need to raise capital at all. Corporate profits have risen to a 50-year high as a proportion of America's GDP. Companies have used the cashflow from those profits to buy back shares and pay down debt.

Mr Motivator

In the 1990s it seemed as though everybody in America had a neighbour or a relation who was about to become a millionaire through their stock options. Companies were handing them out like free newspapers on Piccadilly. Company boards were happy to offer options since accounting rules allowed them to pretend they had no cost. Employees were happy to take them in the belief that an ever-rising stockmarket would allow them to buy the condominiums of their dreams. Companies without a listing seemed likely to fall behind in the race for talent.

But the collapse of the dotcom bubble made lots of options worthless. These days many employees would just as soon be rewarded with good old-fashioned cash. And now that options are properly accounted for, companies are just as happy to hand cash over.

Besides, partnerships such as lawyers and accountants (not to mention hedge funds) have historically managed to offer very generous rewards to their top employees without the need for a stockmarket quote. And private-equity groups have also been successful at retaining important staff by offering them potentially lucrative stakes. Indeed, top executives may prefer the private sector. For a start, private-equity bosses can keep what they earn secret, while chief executives of quoted companies find themselves the subject of impertinent comments from the media and activist shareholders.

Perhaps as a result, managers can earn a lot more in the unquoted sector. The most famous example is Dave Calhoun, a top GE executive who turned down jobs at S&P 500 companies for the chance to run privately owned VNU, a Dutch media group, for a reported $100m package.

Of course, such executives will take more risks and work hard for their money; private-equity partners can be tough taskmasters. But at least there will be only one set of masters and the goals will be clear. There is no need to worry about the onerous bits of the Sarbanes-Oxley law (in America), or shareholder resolutions separating the roles of chairman and chief executive (in Britain) or hedge funds demanding

that businesses be sold off (pretty much anywhere). Public companies have to reveal a lot more than private ones. Pressure groups can pore over every detail of company policy from the use of child labour to carbon emissions.

The danger is that executives running public companies end up spending so much time dealing with shareholders, regulators and campaigners that they neglect the business. Indeed, these different "stakeholders" may well demand different, and irreconcilable, things. Entrepreneurs, the type of people who like to "get things done" may not want the hassle.

There is another problem, identified by Professor Jensen almost two decades ago. The structure of a public company creates an inherent conflict between investors and the managers they hire to run the business. The main problem is what to do with free cashflow, the money left over after all profitable investment projects have been funded. In theory this money should be returned to shareholders, but managers may be reluctant to do so. Holding on to cash means they do not have to go cap in hand to capital markets.

Professor Jensen argued that borrowing imposed discipline on executives. They needed to generate cash to meet interest payments. And, if they wanted to finance a project, they would have to convince investors that it was worthwhile. The result ought to be fewer unprofitable projects because cash is no longer left burning a hole in managers' pockets.

Private-equity firms apply this lesson in spades. They gear up the balance sheets of companies they buy with more debt than public firms are willing to accept. Nearly 20 years of economic stability have led some to believe that even notoriously cyclical businesses, such as carmaking, can now bear higher levels of debt.

In theory, executives working for private-equity owners respond by cutting costs, weeding out unprofitable operations and expanding those parts of the business where returns are highest. This is what generates charges of asset-stripping. But some of this occurs in most takeovers, whether public or private. Most takeovers are justified by "synergies", which usually means shedding jobs at head office. This is all part of the "creative destruction" process that allows capital to be allocated more efficiently. Academic studies have suggested that private-equity firms create jobs rather than destroy them, although a lot more research needs to be done before everybody will be convinced.

Workers do have a legitimate concern about the security of their pensions. When a company takes on a lot of debt it undoubtedly makes the "covenant" between a company and its pensions scheme less secure. For a start, it increases the risk that a company may go bust, and so may not be making contributions into the scheme in future. And in the short term executives will concentrate on paying down debt rather than making additional payments to close a pension deficit.

It may well be that the shift away from quoted companies turns out to be detrimental to workers' pensions rights. However, those rights were already being eroded, with many quoted-company schemes being closed to new members or to future accruals for existing employees. Private equity is not the main, or even a leading, cause of the pensions crisis.

The conglomerate model

Another potent criticism of private equity is the parallel with the conglomerates of the 1970s and 1980s, such as ITT, BTR and Hanson. Like private-equity firms, the conglomerates used their financial muscle (in their case, highly rated shares rather than borrowed money) to construct diverse industrial empires. They argued, just as private equity does today, that they could improve the companies they owned through superior management.

Eventually, those empires fell apart. Like a shark compelled to keep swimming forward to catch its prey, they needed ever-bigger acquisitions to make progress. Investors concluded that they could diversify on their own, by buying shares in different sectors. They did not need a conglomerate to do the job for them.

Private-equity groups insist they will not run into the same problem. "We don't hang on to the businesses," says the leader of one. But that creates another potential problem: investing for growth. If a business is going to be sold within, say, five years, what incentive is there to approve the financing of projects that may take a decade or more to pay off?

Private-equity bosses maintain that it is not in their interest to ruin the companies they buy, because they want to sell them again. And it is also the case that the executives of publicly quoted companies can sometimes skimp on capital expenditure, given that they are often under pressure to meet quarterly profit targets.

Superior returns?

In the end, the argument comes down to a simple one: if private-equity firms are organising the assets of companies more efficiently, then the founders of the industry deserve their billions (though not, perhaps, all of their tax breaks). But it is hard to measure the efficiency of private-equity firms directly. The best that can be done is to look at their returns. Here, the evidence is murky. One much-cited study** found that average returns, net of fees, were roughly equal to that produced by the S&P 500 index between 1980 and 2001. That implies that private-equity firms do improve the businesses they own, since gross returns outperform the market. But investors do not seem to benefit. “Overall, returns have not been that special, especially if you adjust for risk,” says Richard Lambert, director-general of the Confederation of British Industry, Britain's main business lobby-group.

The calculations can be complicated by the tortuous accounting used to calculate the private-equity industry's returns. A recent study† suggests that the residual values of companies that remain in private-equity portfolios may have been overstated. Allowing for this cuts the average net return to three percentage points below that of the S&P 500 index.

However, analysis does suggest that a small proportion of private-equity groups has consistently achieved superior returns. And a study by three American academics†† found that the results achieved by end-investors (such as pension funds and private banks) differed widely; college endowments earned returns that were 14 percentage points better than average. This suggests that a headlong rush by pension funds into the sector in pursuit of diversified returns from “alternative assets” might leave many disappointed.

Going private

Could the private-equity model become the norm, replacing the public company? And would that be a good thing? What might be logical for an individual company might not be best for the economy overall. If all companies were to substitute debt for equity on the scale that private-equity firms have, there would be an increase in the cost of debt. That would make superior equity returns hard to achieve.

In addition, private-equity firms need an exit route to sell their investments. Although there is a growing trend for secondary deals, where one group sells a firm it has bought to another, there must be a limit to which further efficiencies can be squeezed out of any particular business. In the end, a public market will be needed for someone to realise their profit.

Indeed, the need for an exit route was neatly demonstrated by the recent flotation of Blackstone, one of the largest private-equity groups, on the New York stockmarket and the decision this week by Kohlberg Kravis Roberts, another of the industry's titans, to follow suit. It does seem a bit hypocritical for these firms, who regularly tout the benefits of the private model, to head for the public markets—but what other route could they take? They could hardly agree to be bought by each other.

A bigger role for private equity might make the economy more vulnerable. Historically, recessions have often occurred when rising interest rates have cut into corporate profits, causing firms to slash employment and capital expenditure. In a world where most companies carried private-equity-style debt levels, companies would be much more vulnerable and recessions might become much more frequent. Monetary policy would become more difficult, with even small changes in interest rates having the potential to cause massive damage to business. And government revenues might be affected if large portions of industry were financed by tax-deductible debt.

But private equity still accounts for only a small proportion of corporate ownership. Much of the industry's activity is among small and medium-sized companies. There is still plenty of scope for private-equity firms to expand.

It may well be, however, that the peak of the cycle is close at hand. Private equity is inevitably a “feast

and famine" business: when one fund can raise a lot of capital, they all can. Competition to buy companies then pushes up the price of doing deals, increasing the interest burden and reducing the returns for equity holders. More deals will be done this year, but they may not deliver the kind of returns that investors are hoping for, just as the late 1980s buy-out of RJR Nabisco, the emblematic deal of the era, proved a disappointment.

Since 2003 conditions have been almost ideal for private-equity firms, with low interest rates, lots of liquidity and rising asset prices. But recent events have been moving against them. Bond yields have been rising, making takeovers (which replace equity with debt) more expensive. The high level of corporate profits suggests that there may not be much more to be wrung out of businesses. And the relentless campaign against private-equity tax privileges has made the groups look like easy targets for finance ministers. It may be symbolic that Blackstone's shares quickly slid below the offer price.

Bad debts

Investors also seem to have woken up to the potential risks, perhaps alerted by the losses being suffered in another part of the credit universe—subprime mortgages. They had previously been happy to extend credit on easy terms, such as "covenant-lite" loans (debts with few checks on operating performance) or payment-in-kind notes, where borrowers can substitute more debt for interest payments. Now they are starting to turn down deals where private-equity firms push their luck too far. Banks are getting reluctant to provide the "blank cheques" that private-equity groups were demanding for the bridge financing of deals. In addition, exits may be becoming more difficult: the sale of New Look, a British retailer, collapsed when the last two remaining bidders pulled out.

It is important, however, to distinguish between the cyclical and structural tides. The 1980s private-equity boom ended in the face of rising interest rates and a slumping economy. The same combination might cause another retreat over the next few years. But after that tide has ebbed, more businesses will be in private hands. And when interest rates inevitably fall again, the private-equity wave will once again capture new ground.

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America's mortgage giants

Fannie and Freddie ride again

Jul 5th 2007 | NEW YORK
From The Economist print edition

Satoshi Kambayashi

The subprime mess provides an opportunity for Fannie Mae and Freddie Mac to salvage their reputations

WHERE there is crisis, there is also opportunity. The turmoil afflicting parts of America's giant residential mortgage market has already claimed dozens of casualties, including two Bear Stearns hedge funds that bet the wrong way on structured products backed by loans to subprime borrowers. But Fannie Mae and Freddie Mac, the government-chartered siblings that tower over the market, spy gold in the rubble—or at least a chance to polish their tarnished reputations.

Founded to promote affordable housing, Fannie and Freddie make life easier for lenders by buying their home loans and packaging them as securities, or by guaranteeing third parties' issuance of mortgage-backed bonds. Between them they hold or support assets worth more than $4 trillion. It was, therefore, no trifling matter when they were found to have misreported earnings in 2001-04—by a combined $11 billion. Top executives were jettisoned, huge fines imposed, and the pair were hit with portfolio caps and higher capital requirements.

The journey to redemption has been backbreaking. They have spent billions of dollars on new systems and controls. At one point, more than 60 “restatement teams” were beavering away at Fannie, trying to make sense of its labyrinthine books. Their work is finally paying off. Fannie said recently that it will return to timely reporting next spring, earlier than expected, while Freddie will do so this year. The surprise lifted Fannie's shares, which are up by around 13% this year.

Fannie and Freddie also hope to regain credibility by portraying themselves as buyers of last resort in the subprime market, as private lenders belatedly tighten standards and investors run from toxic mortgage-backed debt. They have pledged to buy tens of billions of dollars of new subprime mortgages, and are working on products to alleviate the plight of the worst-hit borrowers. As a result, their market share has grown in recent months, though not quite to the level it was at before the scandals. Remarkably, Fannie's portfolio grew at an annual rate of 14% in May. The news this week of problems at another group of hedge funds where subprime bets turned sour, run by United Capital, is likely to send more business their way.

Some question the motives of the so-called government-sponsored enterprises (GSEs), accusing them of using the crisis to cherry-pick the best subprime customers without taking much extra risk. “They paint themselves as saviours, but they are essentially opportunists,” says Bert Ely, a consultant and long-time critic of the pair.

But with Congress having declared war on “predatory” lending, the move is politically smart. Nor can anyone deny that Fannie and Freddie are well placed to take a lead. Sentiment has swung quickly away from exotic adjustable-rate mortgages towards the safer fixed-rate products that are their bread and butter. And because they were forced to show restraint while others grabbed every bit of business going, their portfolios have plenty of room to grow. James Lockhart, the director of the Office of Federal Housing Enterprise Oversight (OFHEO), the GSEs' regulator, sees it as an opportunity for them to educate the market in sound underwriting.

This is a time when Fannie and Freddie can prove their worth as market stabilisers, argues Patricia Cook, a senior Freddie Mac executive. And because the lack of liquidity that comes with instability means higher spreads, they should be able to meet the mission in their charters (to provide liquidity, stability and affordability) while also pleasing their shareholders. “Sometimes it's a very elegant model,” she says. Analysts agree: they have been raising the GSEs' price targets.

But not everyone is so sanguine. Though they do not engage in subprime lending, Fannie and Freddie hold large piles of bonds linked to such mortgages, some of it packaged externally. A small but significant share of this “private label” paper is rated below AAA, the top notch. In a recent report, Federal Financial Analytics, a consultancy, noted that a 15-30% writedown of this non-AAA slice—hardly inconceivable given the continuing rise in subprime delinquencies—would result in losses of up to $3 billion for Freddie and $3.6 billion for Fannie. That would knock back their return to financial normalcy.

This kind of analysis sets pulses racing at the Treasury, where officials worry about the threat the GSEs pose to the broader financial system. The problem is not just their size. The implicit government guarantee they enjoy, thanks to their charters, means they can borrow at rates close to those on risk-free Treasury bonds, whatever their financial state. This encourages them to grow recklessly. Mr Lockhart points out that between 1990 and 2005 their portfolios grew tenfold. American GDP doubled over the same period.

If Fannie or Freddie were to get into serious trouble, taxpayers would be on the hook for huge amounts. Worse, banks would be severely hurt, since they are allowed to hold as much of the two institutions' debt as they want. Thousands do. Many hold more GSE paper than they do regulatory capital. This raises the spectre of a broad financial crisis if either of the mortgage giants were to collapse.

That seems highly unlikely at the moment. Indeed, as Brian Harris of Moody's points out, even without their implicit guarantee Fannie and Freddie would be among the most highly-rated financial institutions. And yet things can change quickly: Fannie, remember, fell into technical insolvency in the 1980s, not long after having been in apparently fine fettle. This is why the Treasury, OFHEO and others are urging Congress to pass a bill that gives the currently feeble regulator similar powers to those of bank supervisors.

The GSEs seem unworried by the prospect of more stringent regulation. Deep down they are probably more concerned about threats from new forms of competition, such as covered bonds (on-balance-sheet instruments that enjoy a AAA rating because they are well collateralised) and home-loan securitisation trusts, which serve groups of banks. These innovations, as well as an increasingly liquid secondary market when times are good, could allow commercial banks to muscle in on the GSEs' turf. Fannie and Freddie should enjoy their subprime bounce while it lasts.

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Buttonwood

Bomb proof

Jul 5th 2007
From The Economist print edition

Terrorism is no longer much of a "black swan" event for markets

CAR bombs are placed in London and Glasgow airport is attacked; Britain's terrorism-alert status moves briefly to the highest level, suggesting another attack is imminent. So how does the stockmarket react? The FTSE 100 index fell on July 2nd, the first full day of trading after the Glasgow incident, by a measly 17 points.

Of course, the attacks failed. But they did seem to point to a frightening prospect: that terror tactics perfected in Baghdad might be brought to the streets of Britain on a regular basis. Investors, however, seemed completely unconcerned.

This is part of a pattern that has seen each successive terrorist attack cause smaller and smaller shockwaves in the markets. The September 11th outrage in America had a huge effect; stockmarkets had to close. But share prices eventually recovered, with the help of effective central-bank action. Subsequent attacks, such as the bombings in Madrid, Bali and London, have been one-day market events.

Perhaps this points to an admirable *sang froid* on the part of investors. Terrorist attacks kill far fewer people than car accidents, so why should they have a long-term impact? After all, mainland Britain survived 20 years of bombing by the IRA and Spain's economic growth has not been thrown off course by the activities of ETA, the Basque separatist group. Provided the violence is sporadic, people have to carry on with their daily lives.

However, one could see the market's resilience as more evidence of the split that emerged at the beginning of the year between the two types of folk who attended the World Economic Forum in Davos—those in the political elite, who were worried about the Middle East, North Korea and terrorism, and the captains of business and finance, who were luxuriating in boom conditions.

It has not paid investors to worry about geopolitical risk in recent years. The stockmarket began its long rally just days before the invasion of Iraq in March 2003. If investors had been told then that America and Britain would be bogged down in a civil war four years later, or that oil prices would be $70 a barrel, the rally would probably have been stillborn.

But the markets seem to have climbed the "wall of worry" with barely a slip, surmounting everything from bird flu to America's current-account deficit and cold-war rhetoric from Russia's president, Vladimir Putin. Far more important in driving up share prices has been the remarkable strength of corporate profits and the wave of liquidity buoying almost every asset from art to zinc.

Perhaps this indicates that investors are complacent. Markets might be undermined by what Nassim Taleb, an author, has described as a "black swan"—an event with a small probability of happening, but a big impact if it does. Niall Ferguson, a Scottish historian, pointed out in a lecture on July 2nd to London Business School's Global Leadership Summit that a previous era of globalisation was brought to a swift end by the first world war. Financial markets were barely anticipating military conflict less than two weeks before its start; just like today, the spread, or excess interest rate, on emerging-market bonds was at historical lows. But the war brought the suspension of trading for months on end and wiped out whole asset classes, such as Tsarist bonds.

Although Professor Ferguson is not forecasting another world war, he believes that a wider Middle Eastern conflict is much more likely than most people think. Such an outcome could play havoc with investors' portfolios. And if he is right, then investors are acting in a complacent fashion. But might that complacency, in an odd way, be rational? Betting on a black swan does not offer attractive odds. If a catastrophe only happens 1% of the time, then 99 times out of 100, betting on such an event will lose money. The investor will underperform the benchmark and lose clients.

Staying fully invested, and waiting to get sandbagged by events, makes more business sense. After all, if a catastrophe does happen, the investor has the perfect excuse: nobody saw it coming. The chances are that everybody's portfolios will suffer in tandem.

In any case, since terrorism has been a constant subject of discussion over the past six years, it hardly belongs in the black-swan category. Something much more deadly than a car bomb, such as a nuclear or biological device, would be needed. Events in Iraq are no longer seen as a market-moving factor. Perhaps military action outside the Middle East, involving the two Koreas, India and Pakistan or even China and Taiwan, would be the kind of real shock that would turn investors into nervous ninnies overnight.

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The economics of renewables

Cheap alternatives

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Academics and advocates debate the true cost of wind and solar power

CHEERLEADERS for renewable energy are fond of pointing out that patches of desert receive enough energy each year from sunlight to power the entire world. But few deign to explain how the construction of the millions of solar cells required to convert that energy into electricity would be financed. Utility bosses and policymakers tend to dismiss wind and solar power as noble but expensive distractions, sustainable only through lavish subsidies. But new studies suggest that renewables might not be as dear as sceptics suspect.

In a report that was due out on July 6th Greenpeace, an environmental group, argues that utilities would save money by investing in renewables. Windmills may cost more to build, the logic runs, but they do not require the purchase of fuel, unlike coal- or gas-fired power plants. Those future fuel costs, Greenpeace says, massively outweigh the extra investment costs of renewables. If nuclear power were phased out and renewables' share of generation rose dramatically, it calculates the average annual savings between 2004 and 2030 would be $180 billion.

These figures, of course, rely on all sorts of questionable assumptions. In Greenpeace's scenario, the prices of gas and coal will rise, despite stagnating consumption of the former, and a steep drop in demand for the latter. It also helps that the future as Greenpeace sees it includes a big dose of energy efficiency, although its business-as-usual projections do not. Utilities, at any rate, must not be making the same assumptions, since they continue to invest in power plants run on fossil fuels.

Other studies make a slightly less sweeping claim: that adding wind power to the grid can reduce the overall cost of electricity. The marginal cost of producing wind power is almost nothing, since the fuel—wind—is free. So on a windy day, the cheapest power comes from wind turbines. That power, in turn, displaces generation from sources with higher fuel costs, such as gas-fired plants. So power prices tend to fall when the wind is blowing. Nuon, a Dutch utility, calculates that in 2005 the average power price on the local spot market was over €45 ($56) per megawatt hour when there was no wind, but under €30 when the average wind-speed topped 13 metres per second.

Researchers in Denmark have gone a step further and put a value on this effect. They believe that wind power shaved 1 billion kroner ($167m) off Danish electricity bills in 2005. On the other hand, Danish consumers also paid 1.4 billion kroner in subsidies for wind power. But this year, reckons Rune Moesgaard of the Danish Wind Industry Association, wind power will actually save consumers money for the first time, as the benefits resulting from lower power prices outweigh the falling cost of the subsidy.

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Valuing urban trees

Green gold

Jul 5th 2007 | AUSTIN
From The Economist print edition

What price for a mighty old oak?

Get article background

WHEN the University of Texas was building a dormitory last year, an unusual sign hung nearby. “Do not discard or pour paint, mortar, trash or any construction material or debris on this tree,” it declared. “The replacement value of this oak tree is $90,000.”

Strange but true: the trees in American backyards may be worth far more than the cars in the front drive, at least in theory. Much depends, of course, on what sort of trees they are. In Nebraska a sugar maple is worth more than an English oak, according to a 2004 guide. Trunk size, the tree's condition, its species and location—one in Manhattan will be worth more than a comparable specimen in Buffalo—will all affect values.

Amid fears of global warming, tree hugging is on the rise, not least among politicians. Al Gore has made tree planting central to his message for the Live Earth jamboree on July 7th. Michael Bloomberg has plans to plant 1m trees in New York, which will further boost property values and clean the air.

Of course, no amount of urban oaks can make up for the loss of rainforest in Indonesia—but that has not stopped cities from boasting about the value of their greenery. A recent “tree census” in New York City, conducted at the behest of Mr Bloomberg, values the city's nearly 600,000 trees at $122m. A rough breakdown: $11 million for filtering out air pollutants; $28m saved in energy consumption (less need for air conditioners); $36m for stemming storm-water run-off; and $53m in “aesthetic benefits”. The Forest Service values the urban canopy in all of America at $14.3 billion.

What is the use of all these (rather shady) numbers? Mr Bloomberg cannot sell off trees to patch a hole in his budget, after all. They are, literally, a fixed asset. But for politicians, numbers help. By claiming that every $1 put into New York's trees returns $5.60 in benefits, he may find it easier to galvanise New Yorkers to plant more and chop down fewer.

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Insurance regulation

Two thumbs up

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From The Economist print edition

European insurers get some souped-up new regulations

EUROPE'S insurers have waited a long time for a major overhaul of the rules on risk and capital. While bankers have developed Basel 2, insurers have been stuck with a regulatory relic largely unchanged since the 1970s. At times, it must have felt as though they were crawling along in a clapped-out Reliant Robin, while their banking cousins zoomed around in a shiny sports car. But now insurers are getting a new set of regulatory wheels, courtesy of the European Commission, which publishes a proposal for its Solvency 2 directive on July 10th. And the industry even seems pretty optimistic that Brussels will not sell them a dud.

Solvency 2 is a comparatively rare breed: a new regulation that gets a cheer from industry and politicians (although admittedly it still has to jump over many legislative hurdles). Peter Skinner, a British Labour MEP, thinks it will offer better protection for consumers. He believes that the Equitable Life debacle, which affected 1m British policyholders and left thousands of German and Irish ones with no redress, could have been prevented by Solvency 2-style scrutiny and rules.

The industry is optimistic, too. If all goes to plan, Solvency 2 will usher in a new risk-based regime by 2012. Instead of arbitrary statutory requirements governing how much money must be squirreled away to guard against unexpected calamities, a company's assets and liabilities will be priced according to their market value. For Philippe Foulquier, a professor at the EDHEC Business School in France, this is nothing less than “a revolution in terms of risk”. Rewards will go to those firms that are good at managing risk; the uncompetitive and overpriced will fail. Solvency 2 also introduces group supervision, allowing pan-European groups to fulfil their regulatory duties to one lead authority based in their home country. This should end conflicts between different regulators and cut costs for big diversified companies.

The old rules have become increasingly clunky. Big companies have come up with smarter ways to manage risk, while the growing securitisation market has enabled companies to pool exposures and sell them as bonds in the capital markets. Regulators in Denmark and Britain have also been experimenting with new risk-based systems. This has heightened calls for a common European approach to ease compliance costs. The industry seems confident that Solvency 2 will deliver what it is looking for. Peter Vipond of the Association of British Insurers says that even Basel 2 does not allow banks to model all of their risks, and will look “old fashioned” compared to Solvency 2.

For industry, this makes it worth the upfront costs, estimated to be €2-3 billion ($3-4 billion) by the European Insurance and Reinsurance Federation. But analysts expect savings for large diversified companies that have already developed risk-based systems. They could see their solvency margins—the cushions regulators require them to keep to tide them through a rough patch—go down, or at least stay the same. But smaller companies that are more exposed to risk could see their solvency margins increase. The European market is dominated by large companies, but there are 4,000 small companies accounting for 2% of market share in premiums. In Professor Foulquier's view, Solvency 2 could accelerate the trend towards consolidation of the industry.

But although Solvency 2 is a challenge for small companies, they do not want to be left behind, as it could become an international gold standard. Non-European companies are said to be interested in adopting the rules and some American firms have already installed software to capture information needed to comply with Solvency 2. Europe's new regulatory model, it seems, is turning heads.

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The Big Mac Index

Sizzling

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From The Economist print edition

Food for thought about exchange-rate controversies

Cash and carry

The hamburger standard

	Big Mac prices		Implied PPP† of of the	Actual dollar exchange rate July 2nd	Under(-)/over(+) valuation against the dollar, %
	in local currency	in dollars			
United States‡	$3.41	3.41			
Argentina	Peso 8.25	2.67	2.42	3.09	-22
Australia	A$3.45	2.95	1.01	1.17	-14
Brazil	Real 6.90	3.61	2.02	1.91	+6
Britain	£1.99	4.01	1.71§	2.01§	+18
Canada	C$3.88	3.68	1.14	1.05	+8
Chile	Peso 1,565	2.97	459	527	-13
China	Yuan 11.0	1.45	3.23	7.60	-58
Czech Republic	Koruna 52.9	2.51	15.5	21.1	-27
Denmark	Dkr 27.75	5.08	8.14	5.46	+49
Egypt	Pound 9.54	1.68	2.80	5.69	-51
Euro area**	€3.06	4.17	1.12††	1.36††	+22
Hong Kong	HK$12.0	1.54	3.52	7.82	-55
Hungary	Forint 600	3.33	176	180	-2
Indonesia	Rupiah15,900	1.76	4,663	9,015	-48
Japan	¥280	2.29	82.1	122	-33
Malaysia	Ringgit 5.50	1.60	1.61	3.43	-53
Mexico	Peso 29.0	2.69	8.50	10.8	-21
New Zealand	NZ$4.60	3.59	1.35	1.28	+5
Peru	New Sol 9.50	3.00	2.79	3.17	-12
Philippines	Peso 85.0	1.85	24.9	45.9	-46
Poland	Zloty 6.90	2.51	2.02	2.75	-26
Russia	Rouble 52.0	2.03	15.2	25.6	-41
Singapore	S$3.95	2.59	1.16	1.52	-24
South Africa	Rand 15.5	2.22	4.55	6.97	-35
South Korea	Won 2,900	3.14	850	923	-8
Sweden	SKr33.0	4.86	9.68	6.79	+42
Switzerland	SFr6.30	5.20	1.85	1.21	+53
Taiwan	NT$75.0	2.29	22.0	32.8	-33
Thailand	Baht 62.0	1.80	18.2	34.5	-47
Turkey	Lire 4.75	3.66	1.39	1.30	+7
Venezuela	Bolivar 7,400	3.45	2,170	2,147	+1
Colombia	Peso 6,900	3.53	2,023	1,956	+3
Costa Rica	Colon 1,130	2.18	331	519	-36
Estonia	Kroon 30.0	2.61	8.80	11.5	-23
Iceland	Kronur 469	7.61	138	61.7	+123
Latvia	Lats 1.39	2.72	0.41	0.51	-20
Lithuania	Litas 6.60	2.61	1.94	2.53	-24
Norway	Kroner 40.0	6.88	11.7	5.81	+102
Pakistan	Rupee 140	2.32	41.1	60.4	-32
Paraguay	Guarani 10,500	2.04	3,079	5,145	-40
Saudi Arabia	Riyal 9.00	2.40	2.64	3.75	-30
Slovakia	Koruna 61.3	2.49	18.0	24.6	-27
Sri Lanka	Rupee 210	1.89	61.6	111	-45
UAE	Dirhams 10.0	2.72	2.93	3.67	-20
Ukraine	Hryvnia 9.25	1.84	2.71	5.03	-46
Uruguay	Peso 62.0	2.59	18.2	23.9	-24

†Purchasing-power parity; local price divided by price in United States ‡Average of New York, Chicago, Atlanta and San Francisco §Dollars per pound **Weighted average of prices in euro area ††Dollars per euro

Sources: McDonald's; *The Economist*

AMERICAN politicians bash China for its policy of keeping the yuan weak. France blames a strong euro for its sluggish economy. The Swiss are worried about a falling franc. New Zealanders fret that their currency has risen too far.

All these anxieties rest on a belief that exchange rates are out of whack. Is this justified? *The Economist*'s Big Mac Index, a light-hearted guide to how far currencies are from fair value, provides some answers. It is based on the theory of purchasing-power parity (PPP), which says that exchange rates should equalise the price of a basket of goods in any two countries. Our basket contains just a single representative purchase, but one that is available in 120 countries: a Big Mac hamburger. The implied PPP, our hamburger standard, is the exchange rate that makes the dollar price of a burger the same in each country.

Most currencies are trading a long way from that yardstick. China's currency is the cheapest. A Big Mac in China costs 11 yuan, equivalent to just $1.45 at today's exchange rate, which means China's currency is undervalued by 58%. But before China's critics start warming up for a fight, they should bear in mind that PPP points to where currencies ought to go in the long run. The price of a burger depends heavily on local inputs such as rent and wages, which are not easily arbitraged across borders and tend to be lower in poorer countries. For this reason PPP is a better guide to currency misalignments between countries at a similar stage of development.

The most overvalued currencies are found on the rich fringes of the European Union: in Iceland, Norway and Switzerland. Indeed, nearly all rich-world currencies are expensive compared with the dollar. The exception is the yen, undervalued by 33%. This anomaly seems to justify fears that speculative carry trades, where funds from low-interest countries such as Japan are used to buy high-yield currencies, have pushed the yen too low. But broader measures of PPP suggest the yen is close to fair value. A New Yorker visiting Tokyo would find that although Big Macs were cheap, other goods and services seemed pricey. A trip to Europe would certainly pinch the pocket of an American tourist: the euro is 22% above its fair value.

The Swiss franc, like the yen a source of low-yielding funds for foreign-exchange punters, is 53% overvalued. The franc's recent fall is a rare example of carry traders moving a currency towards its burger standard. That is because it is borrowed and sold to buy high-yielding investments in rich countries such as New Zealand and Britain, whose currencies look dear against their burger benchmarks. Brazil and Turkey, two emerging economies favoured by speculators, have also been pushed around. Burgernomics hints that their currencies are a little overcooked.

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Economics focus

Home truths

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From The Economist print edition

Talk of a housing bubble in China and other parts of East Asia is much exaggerated

Get article background

TEN years after the start of East Asia's financial crisis, some economists are fretting that the region is heading for another bust as abundant liquidity and low interest rates inflate bubbles in shares and housing. The bursting of property bubbles in 1997 played a big part in the region's economic and financial meltdown. Average house prices fell by 20-50% in real terms in most countries between 1997 and 2003. In Hong Kong, nominal prices slumped by as much as two-thirds.

China escaped relatively lightly in 1997-98. But today a collapse in house prices could have nasty consequences—more severe than a bursting of its stockmarket bubble. That is because 80% of China's urban households now own their home (in America, the national figure is 69%), compared with only around 10% owning shares. It is fortunate, therefore, that for all the talk about a housing bubble, by most measures it does not exist.

Average house prices have risen by 30% in China since 2002, less than the 46% jump in America. Admittedly, prices in Shanghai have almost doubled. At the peak of the boom in 2004, the prices of luxury apartments in Shanghai were rising at an annual rate of 50%, but the government has since successfully cooled the market with a capital-gains tax on homes resold within five years and an increase in minimum down payments. In a developed economy, double-digit annual price gains would indeed look bubbly, but not in an economy where nominal GDP is growing at a rate of 14%.

Across the globe, studies show that in the long term the main driver of house prices is income. The ratio of average house prices to average incomes is currently flashing red in America, Britain, Spain and quite a few other developed countries where it has soared to record highs—ie, above levels that preceded previous crashes.

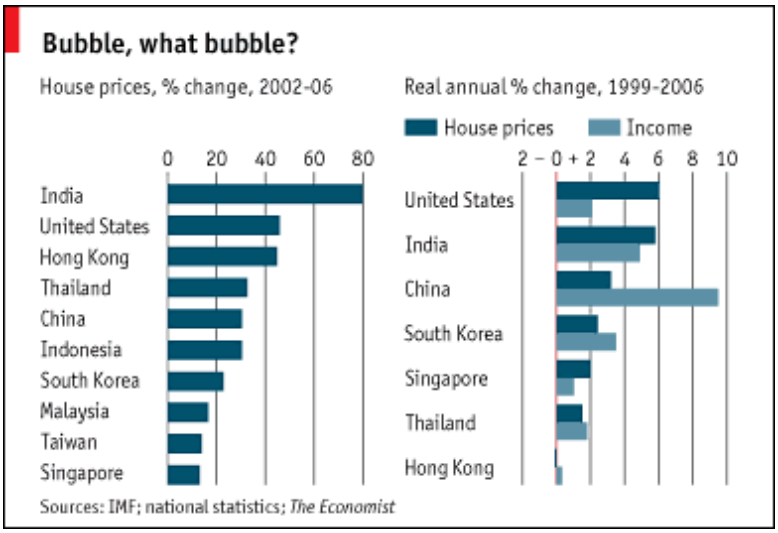
In China, in contrast, average nationwide house prices have risen much more slowly than incomes. According to a report in the latest *China Economic Quarterly*, the ratio of house prices to disposable income has fallen by 25% since 1999. Even in Shanghai house prices have barely outrun incomes. A study by Bank Credit Analyst, a Canadian financial-research firm, concludes that, based on the long-run relationship between house prices and GDP per head, China is one of the most undervalued markets among those that it studied.

Another symptom of a bubble would be a big increase in mortgage borrowing. Heavy debts would also exacerbate the consequences of any fall in house prices. Mortgage debt has been rising rapidly in China, but from a low base. Before 1997 there were few mortgages, and even now they account for only 10% of GDP, compared with 70-80% in America and Britain. Over half of Chinese owners obtained their homes at well below market rates during the housing privatisation from the late 1990s onwards. Apartments were sold to tenants at rock-bottom prices and, because households had large savings, only half of all owners have a mortgage. Of those who bought with a loan in 2005, the average mortgage was only 63% of the home's value; in America 100% mortgages have been common.

Elsewhere in Asia property prices have also risen briskly during the past few years, but this follows sharp declines, so prices are still below previous peaks. After the property crash of the late 1990s, consumers were less keen to take on housing debt and banks were reluctant to lend. It has taken years for confidence to recover.

The hottest market this year is Singapore, where house prices jumped by 14% in the 12 months to March; luxury properties are up by 30-40%. However, over the past four years as a whole, Singapore has seen the smallest gain in the region (see left-hand chart below) and is still 25% below its 1996 high. Likewise, despite much concern about a 12% leap last year in average house prices in South Korea, they have risen

by less than a quarter over the past four years. The market in Seoul is certainly fizzing, with prices up by 20% last year, prompting the government to raise interest rates and to introduce tax measures to cool things down. Hong Kong saw property prices jump by 40% during 2004 and 2005, but they have since been relatively flat. Some luxury developments have hit new highs this year, but average prices are still 45% below their peak. In Thailand, Taiwan and Malaysia, house prices fell in real terms over the past year.



A recent study by the IMF finds little evidence of housing bubbles in most Asian countries. Since 1999 house prices have risen more slowly than income in South Korea, Thailand and Hong Kong as well as China (see right-hand chart above).

In contrast, in America, house prices have risen three times as fast as real incomes. Standard Chartered, a bank, calculates that in relation to incomes, housing in South Korea, Taiwan, Hong Kong, Singapore and Thailand is now 37-58% more affordable than it was during the peaks of those markets in the 1990s.

Don't buy in Mumbai

The only Asian country where a bubble leaps out from these charts is India, where average prices have risen by 16% a year over the past four years, well ahead of average income. It is the only country where house prices have surged by more than in America. In Bangalore and Mumbai prices doubled during 2005 and 2006.

According to Global Property Guide, a research firm, equivalent apartments in South Mumbai now cost three times more than in Shanghai, and not much less than in Tokyo—even though Indian incomes are much lower. Looking ahead the question is no longer whether, but by how much, prices will fall. Property prices in Mumbai and Bangalore have already started to slip this year as mortgage rates have increased sharply.

Elsewhere in Asia, expect home prices to keep climbing. The rest of the world is experiencing its biggest housing bubble in history: never before have real house-prices risen so fast in so many countries. But Asia has yet to join the party.

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Climatology

Grey-sky thinking

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Alamy

Without understanding clouds, understanding the climate is hard. And clouds are the least understood part of the atmosphere

"CLOUDY." As a metaphor, that is not a bad description of the science of climate forecasting. The general trends are clear, but the details are obscure. As it happens, however, the description is not merely metaphorical—for of all the elements that make up the climate, and have to be accounted for in models of it, it is clouds that are the most obscure.

Improving this understanding is the purpose of two new missions by NASA, America's National Aeronautics and Space Administration. One of these missions, a satellite called Aeronomy of Ice in the Mesosphere, or AIM, was launched in April to study so-called noctilucent clouds (depicted above), the highest layer of clouds in the atmosphere. These have been getting brighter and more common in recent years, and also seem to be moving to lower altitudes. The other mission, the Tropical Composition, Cloud and Climate Coupling (TC4) project, will begin on July 16th. It will use radar, balloons and aircraft to look at the role of another sort of high-altitude cloud: cirrus clouds, which get spun off the tops of storms. Meanwhile, a paper published this week in the *Proceedings of the National Academy of Sciences* by Sylvia Knight of Oxford University and her colleagues has emphasised just how sensitive climate modelling is to assumptions about clouds.

The link Dr Knight is examining, between clouds and what researchers call climate sensitivity (the degree to which a particular input is likely to change the climate), has been apparent for nearly 20 years. But because clouds take different forms at different scales—from microscopic water droplets to weather fronts that span hundreds of kilometres—they are devilishly hard to describe in models that work by manipulating "virtual" chunks of the atmosphere that are 100km (62 miles) across and 100km high.

Shrouded in uncertainty

Only recently have such international undertakings as the Cloud Feedback Model Intercomparison Project (CFMIP) and the Cloud System Study of the Global Energy and Water Cycle Experiment begun a systematic comparison of the effects of clouds on dozens of the most important climate models, allowing researchers to start to unravel more precisely the role that clouds play in climate change. In a recent paper in *Climate Dynamics*, Mark Webb of Britain's Hadley Centre for Climate Change and his colleagues reported that clouds account for 66% of the differences between members of one important group of models and for 85% of them in another group.

These findings have now been complemented by Dr Knight's project, which made use of climateprediction.net, a network of personal computers on which processing time is volunteered by members of the public, to compile 57,000 different runs of a global-climate model developed at the

Hadley Centre. She and her colleagues found that 80% of the variation in the climate sensitivity predicted was due to changes in how clouds were described in the model. The cloud characteristics included differences in the ease with which moist air in the tropics travels into the upper atmosphere, the speed with which raindrops fatten and the level of humidity required for clouds to form. Each aspect had a big impact on the degree of warming predicted.

The reason why clouds matter so much to the climate, and their role is so tricky to determine, is because they play two contradictory roles. At low altitudes they help to cool the Earth by reflecting sunlight away from it. At the high altitudes studied by AIM and TC4, however, they trap radiant heat from below, warming things up.

At the moment, many researchers believe it is low-level clouds that matter most. In its first phase, participants in the CFMIP analysed a subset of the 23 models used to compile the most recent report from the Intergovernmental Panel on Climate Change. They concluded that changes in low-level clouds contributed most to differences in the degree of warming those models predicted. And in a paper published two years ago in *Geophysical Research Letters*, Sandrine Bony and Jean-Louis Dufresne reported that an analysis of 15 climate models suggested that low-level clouds over the oceans contribute most to uncertainty about how tropical clouds affect those models. Low-level clouds are thought to matter more than high-level ones because they are more prevalent and because they are better at reflecting solar heat away from the Earth than they are at trapping it, blanket-like, as high clouds do. However, results from AIM and TC4 may modify this view—which is the main point of deploying them.

Certainly, model-comparison projects alone will not solve the cloud problem. Too much still remains unknown about the physical mechanisms that determine cloud behaviour. That is why new and better observations are needed to improve the fundamental assumptions on which the models are based. The TC4 project will generate new data on the icy cirrus clouds that are formed in the upper atmosphere by heat-driven, or convective, storm systems that coalesce over warm waters in the tropics. By studying these clouds from every angle and at every point in their life cycle, researchers hope to learn more about how these storms, which can drive air more than 13km above the Earth's surface, will contribute to climate change in a warming environment.

In addition to the TC4 campaign and AIM, a string of NASA climate-sensing satellites called the A-train is providing a global survey of the vertical profile of clouds. One of these satellites, *CloudSat*, has given the first glimpses of the middle layer of clouds in the Earth's atmosphere. Meteorologists were once limited to a top-down or bottom-up look at clouds. Since April 2006, *CloudSat*'s radar has, however, been providing a globe-circling slice of the middle layer, a previously unobserved part of the atmosphere.

Another A-train satellite, the Cloud Aerosol-Lidar and Infrared Pathfinder Satellite Observation (CALIPSO)—launched simultaneously with *CloudSat*—will map the location of layers of small particles called aerosols that promote cloud formation. Such particles act as nuclei for the condensation of water vapour into the droplets of which clouds are composed.

Natural aerosols are produced by sea salt, desert dust, volcanic eruptions and smoke from forest fires. Aerosols are also released when cars are driven, chemicals manufactured and fossil fuels burned. Little is currently known about where such particles end up in the atmosphere and what overall effect they have on the climate. CALIPSO will help to correct that. It has already produced pictures of the volcanic plumes created when part of the Soufrière Hill volcano on the island of Montserrat collapsed last year, sending ash clouds high into the atmosphere. Such gritty reality, when combined with the models, should bring some clarity to the problem of clouds.

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Synthetic biology

Expanded vocabulary

Jul 5th 2007
From The Economist print edition

How to add new meaning to the genetic code

THE language of life has 64 words, and three of those words mean “stop”. When you have such a restricted lexicon, this redundant negativity seems gratuitous. So Lei Wang of the Salk Institute in La Jolla, California, has been trying to change the meaning of one of those words to something more constructive.

The words in question—the other 61 of them, anyway—are genetic instructions for amino acids, the building blocks of proteins which, in turn, make bodies and the biochemicals needed to run them. Read off in order from a protein-coding gene, the letters describe how to make a particular protein. In normal circumstances, there are 20 types of amino acid corresponding to those 61 words (it is not only in the matter of stopping that the language of genes is a language of synonyms). Dr Wang is now able to add to that in mammals, taking the total to 21.

He and his colleague Peter Schultz have been able to pull off this trick in bacteria since 2001, and in yeast since 2003. But mammal cells are far more complex. So to get them to use a 21st type of amino acid as well, Dr Wang and his colleagues had to embrace some fancy biochemistry—as they describe in the latest issue of *Nature Neuroscience*. Then, to show that this is not merely an academic conjuring trick, they did a piece of practical science with their invention.

To create a new genetic instruction, Dr Wang's team needed not only to identify which new word they wished to add but also to find something that would carry it and to glue the two together. They began by finding a molecule that would carry a novel amino acid to a mammal cell's protein factories. To prevent the genetic code getting lost in translation, that molecule (called a transfer RNA, or tRNA) had to be picky enough to carry only the desired sort of amino acid. Such a component is easier to borrow than to make, so Dr Wang pinched an appropriate tRNA he had previously run up for a bacterium and fiddled with the gene which encodes it to ensure that it would work in a mammalian cell.

Next, he and his colleagues searched for an enzyme capable of sticking the bacterial tRNA to their synthetic amino acid. For this task they looked to the other type of cell with which they are familiar, yeast. Although yeast is a simple organism, its molecular biology is a lot more mammal-like than a bacterium's. Dr Wang took the enzyme that normally attaches one of the 20 natural amino acids to his tRNA in bacteria, and mutated it in about a billion ways in yeast cells in the hope that one of the mutants would fit the mammalian bill perfectly—which, indeed, one of them did.

Having assembled and tested the machinery, he then wanted to do something useful with it. The useful thing in question was to adjudicate between two competing models of how nerve cells operate.

Nerve cells transmit their signals using electrically charged atoms (called ions) of sodium and potassium, which work rather like electrons in a metal wire. To transmit signals, the ions move in and out of the cell through pores—and these openings in the cell walls must snap shut at the end of a transmission. There are two ideas about how this may happen. One proposes that the pore closes when a plug shaped like a ball and chain obstructs the hole. The second suggests that a rod-like plug can block the hole by slipping across it sideways and stopping large ions from passing, rather like a drain cover stops leaves from entering the mouth of a pipe.

An established method—that of taking images of the electron densities of the relevant atoms in order to work out the shape of a molecule—does not offer any clues as to which model is right. Neither does standard genetic engineering, in which some amino acids in the plug are swapped for other natural amino acids. Indeed, Dr Wang tried that by switching an amino acid in the plug for a larger one. His idea was that if the ball-and-chain model were correct, a larger “ball” would not alter its effectiveness as a plug. Should it stop the pore closing, however, it would imply that the rod could no longer get into position.

In fact, nothing did happen, but Dr Wang was not convinced that this proved the ball-and-chain hypothesis. He repeated the experiment with an even bigger “ball”, an artificial amino acid called OmeTyr. Its extra girth made the difference and prevented the pore from closing. To corroborate the result he also tried *p*-benzoylphenylalanine, a second large and unnatural addition to the amino-acid dictionary. That also prevented the pore from closing. So, Dr Wang concludes, it looks as though the ball-and-chain model is wrong and the rod model is right.

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Genetics

The sea-anemone genome project

Jul 5th 2007
From The Economist print edition

Marineseen

The latest animal to have its genes examined is the starlet sea anemone. Daniel Rokhsar of America's Joint Genome Institute and his colleagues reveal its secrets in this week's *Science*. The most surprising of these is that, genewise, the humble sea anemone looks a lot like a vertebrate, and not much like an insect or a worm. This suggests that vertebrates, humans included, have a genetic make-up which is closer to that of the ancestral animals of 700m years ago than those of insects and worms are—in other words, vertebrate genomes are rather primitive. At least, that is the story told by the protein-coding genes. Dr Rokhsar has yet to push his analysis into the mysterious world of genes for the small RNA molecules that recent research suggests are ultimately pulling the strings of molecular biology.

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Neuroeconomics

Money isn't everything

Jul 5th 2007
From The Economist print edition

Men with a lot of testosterone make curious economic choices

PSYCHOLOGISTS have known for a long time that economists are wrong. Most economists—at least, those of the classical persuasion—believe that any financial gain, however small, is worth having. But psychologists know this is not true. They know because of the ultimatum game, the outcome of which is often the rejection of free money.

In this game, one player divides a pot of money between himself and another. The other then chooses whether to accept the offer. If he rejects it, neither player benefits. And despite the instincts of classical economics, a stingy offer (one that is less than about a quarter of the total) is, indeed, usually rejected. The question is, why?

One explanation of the rejectionist strategy is that human psychology is adapted for repeated interactions rather than one-off trades. In this case, taking a tough, if self-sacrificial, line at the beginning pays dividends in future rounds of the game. Rejecting a stingy offer in a one-off game is thus just a single move in a larger strategy. And indeed, when one-off ultimatum games are played by trained economists, who know all this, they do tend to accept stingy offers more often than other people would. But even they have their limits. To throw some light on why those limits exist, Terence Burnham of Harvard University recently gathered a group of students of microeconomics and asked them to play the ultimatum game. All of the students he recruited were men.

Dr Burnham's research budget ran to a bunch of $40 games. When there are many rounds in the ultimatum game, players learn to split the money more or less equally. But Dr Burnham was interested in a game of only one round. In this game, which the players knew in advance was final and could thus not affect future outcomes, proposers could choose only between offering the other player $25 (ie, more than half the total) or $5. Responders could accept or reject the offer as usual. Those results recorded, Dr Burnham took saliva samples from all the students and compared the testosterone levels assessed from those samples with decisions made in the one-round game.

As he describes in the *Proceedings of the Royal Society*, the responders who rejected a low final offer had an average testosterone level more than 50% higher than the average of those who accepted. Five of the seven men with the highest testosterone levels in the study rejected a $5 ultimate offer but only one of the 19 others made the same decision.

What Dr Burnham's result supports is a much deeper rejection of the tenets of classical economics than one based on a slight mis-evolution of negotiating skills. It backs the idea that what people really strive for is relative rather than absolute prosperity. They would rather accept less themselves than see a rival get ahead. That is likely to be particularly true in individuals with high testosterone levels, since that hormone is correlated with social dominance in many species.

Economists often refer to this sort of behaviour as irrational. In fact, it is not. It is simply, as it were, differently rational. The things that money can buy are merely means to an end—social status—that brings desirable reproductive opportunities. If another route brings that status more directly, money is irrelevant.

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Arab conquests

For the glory of Allah

Jul 5th 2007
From The Economist print edition

The Khalili Family Trust

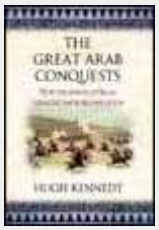
The early followers of the Prophet owed their astounding success in spreading the faith to intelligence and restraint as well as to zeal

Get article background

AN AGGRESSIVE Bedouin horde, drunk on religion, sweeps out of the Arabian peninsula—on the way burning the great library of Alexandria—and, through wholesale massacre and forced conversion, imposes Islam on a vast area stretching from Spain to the fringes of China. If this is your mental picture of the rise of Islam, dimly remembered from some long-ago history lesson, take note: it is in almost every respect wrong.

Hugh Kennedy sets out to explain an historical puzzle. How could Arab forces, relatively small in number and with no particular superiority in weaponry, have pulled off such an apparently impossible feat? In the century that followed the death of the Prophet in 632, they challenged two established empires (the Byzantine and Sasanian). They conquered Syria in eight years, Iraq in seven, Egypt in a mere two and Spain and Portugal in five. At the same time, they pushed deep into Central Asia and the Indian subcontinent. How did they do it? Why did they not meet stronger and more sustained resistance? And, no less of a mystery, how did the empire they created endure?

The Great Arab Conquests: How the Spread of Islam Changed the World We Live In
By Hugh Kennedy



Weidenfeld & Nicolson; 421 pages; £25. To be published in America by Da Capo Press in September

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By painstakingly reconstructing the series of Arab conquests, Mr Kennedy paints a picture strikingly at odds with the popular clichés. “The Muslim conquests”, he writes, “were far from being the outpouring of an unruly horde of nomads.” The Bedouin of Arabia were tough and highly mobile, fired by tribal honour and love of booty as well as by zeal for Islam. They were led by intelligent men from the Meccan elite who knew they had to channel the “frenetic military energies of the Bedouin” outwards, or else face a real risk of implosion.

These leaders also seem to have grasped that to have based their conquests on mass killings and conversion by the sword would have been a fatal mistake. There were massacres, but they were not the norm. If conquered peoples paid tribute and did not make trouble, they were largely left alone.

Local people were incorporated into the new administrative class. Existing religions—Christianity in Syria and Egypt, Zoroastrianism in Persian-ruled areas, Hinduism and Buddhism farther east—were not

persecuted. Large-scale conversions came much later; at the time there was little or no pressure on the conquered people to convert. As for the sack of the Alexandrian library, that, says Mr Kennedy, is a discredited myth.

The Arabs were also lucky in their timing. Mr Kennedy speculates that, had they got going a generation earlier, success would probably have eluded them. As it was, disarray within the Byzantine and Sasanian empires helps to explain why the Arabs met little serious resistance there.

But this was not everywhere the case. The early Muslim armies met their fiercest opposition from the Turks of Central Asia. And, on the other side of their empire, they conquered the Berbers of North Africa but alienated them through the brutalities of the slave trade, which sparked the great Berber rebellion of 741.

Mr Kennedy tells a remarkable tale with skill and authority. Perhaps occasionally he is too much the conscientious professional historian. The general reader must get used to constant cautions ("As usual the actual course of the campaign is confused"). But there is an important point here. The historical sources are confused and contradictory, sometimes written long after the events they describe.

Besides, as so often, history is written by the victors. Arab accounts are full of self-serving bravado, eulogising the virtues of the simple, egalitarian Bedouin in contrast to their elitist and effeminate Persian foes. Mr Kennedy uses Arabic sources, but critically, and tries to balance them by giving voice to the conquered.

The book's subtitle ("How the Spread of Islam Changed the World We Live In") is not directly addressed. Perhaps Mr Kennedy and his publisher thought its truth to be self-evident. The Arab conquests dramatically transformed the world in which they took place. But for today the lesson is different. It is the loss of that early power that torments Muslim hearts and minds, producing anger, humiliation—and eventually the vengeance of al-Qaeda.

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China

Enduring on

Jul 5th 2007
From The Economist print edition

Get article background

VISITING China as a student in 1971, Susan Shirk was told by the premier, Zhou Enlai, that he “wished she was president of the United States”. She was struck, she writes, by the country's “drab poverty”. China has come a long way since then, and so has Ms Shirk. Formerly at the State Department, and now a professor at the University of California, she has had plenty of more mature encounters with China's top leaders. In her book she says what she thought of them, observing, for instance, that President Jiang Zemin had an unfortunate tendency to show off.

China is indeed the fragile superpower of her book's subtitle. It is, she writes, big, ambitious and usually a good neighbour. But its rulers are frightened of disorder, and rightly so; on average, the country has 200 protests a day. Not all these protests are what they seem to be. As a Chinese general explained to Ms Shirk, urban demonstrations, such as the one against the NATO bombing of the Chinese embassy in Belgrade in 1999, were often also “the result of an accumulation of people's grievances against the Chinese government. Demonstrations on foreign policy actually reflect domestic politics.”

Ms Shirk is concerned that China's leaders, though generally relaxed about foreign affairs, could tip the country into war because of a crisis over Taiwan. But, as befits anything to do with China, her advice to her own country's leaders is slightly contradictory. The United States must maintain a powerful presence in the Pacific to guard against Chinese rashness, but avoid sabre-rattling or too obviously strengthening Taiwan. Similarly, she urges America to press China's leaders to loosen their control of the media, include local officials and businessmen in policymaking and open talks with Taiwan. But at the same time she points out that those leaders dislike what they consider interference in their domestic affairs.

Ms Shirk's magisterial book gazes down on China from above. Rob Gifford, now National Public Radio's bureau chief in London, has studied, lived and reported there for years, can natter away in Chinese with anyone on any subject and admits that he both loves and hates the place. In “China Road” he describes two tough 3,000-mile (4,800km) trips from Shanghai to the Russian border. These give him the opportunity to provide quantities of easy-to-swallow but not simple-minded Chinese history, ethnology and politics. Those who know China well, and those who don't, will find Mr Gifford an amiable companion.

He meets an angry café owner who rails at the widespread corruption. Still angry, he goes on to say that there is a word for what the Chinese must do. Mr Gifford expects him to say “revolution”. Instead, he spits out “endure”. He has, Mr Gifford observes, “summed up thousands of years of Chinese history.”

China: Fragile Superpower—How China's Internal Politics Could Derail its Peaceful Rise.
By Susan L. Shirk.
Oxford University Press; 336 pages; $27 and £15.99

China Road: A Journey into the Future of a Rising Power.
By Rob Gifford.
Random House; 352 pages; $26.95. Bloomsbury; £12.99

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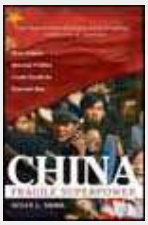

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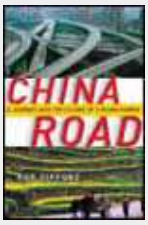

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Capitalism

America still wears the crown

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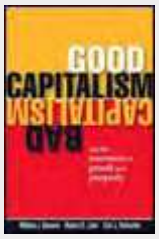
THE fall of the Berlin Wall in 1989 may have proved once and for all that capitalism is better than communism, but it did nothing to settle the debate about which model of capitalism is the best. Or, to be precise, the debate about whether the American model will continue to outdo all comers, or instead be replaced at the top of the economic heap by a rival.

In the late 1970s the threat was from the East, as described by Ezra Vogel, a Harvard professor, in his doom-mongering book, “Japan as Number One”. By the early 1990s, the continental European model seemed to be nipping at America's heels, at least according to “Head to Head” by Lester Thurow, a professor at MIT.

Now the perceived threat is again rising in the East, judging by the harrumphing in Congress and a crop of books in the past couple of years, such as Steve Hamm's “Bangalore Tiger: How Indian Tech Upstart WIPRO is Rewriting the Rules of Global Competition” and Ted Fishman's “China Inc: How the Rise of the Next Superpower Challenges America and the World”.

“Good Capitalism, Bad Capitalism” helpfully moves the debate on from competing national models to the underlying structures that shape the relative effectiveness of different sorts of capitalism. Written by three economists, including 85-year-old William Baumol, arguably the leading thinker about the economics of innovation since Joseph Schumpeter, it identifies four main varieties of capitalism.

Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity
By William J. Baumol, Robert E. Litan and Carl J. Schramm



Yale University Press; 336 pages; $30 and £18.99

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First, state-guided capitalism, in which government tries to guide the market, typically by supporting certain industries that it expects to become “winners”. Second, oligarchic capitalism, in which the bulk of the power and wealth is held by a small group of individuals and families. Third, big-firm capitalism, in which the main economic activities are carried out by established giant enterprises. Fourth, entrepreneurial capitalism, in which a major role is played by small, innovative firms.

The only thing that all four of these models of capitalism have in common is that they recognise the right of private property ownership. Nor is there any single country that has exactly any one of the models described; in most national economies there is some blend of at least two. Moreover, the blend changes over time, and with it, the performance of the economy. Less than two decades after the fall of communism, Russia is already moving rapidly from oligarchic capitalism to an authoritarian state-guided capitalism.

Neither of those two Russian models are the best producers of economic growth, at least in the long run. Oligarchic capitalism is the worst performer; state-guided capitalism can work well for a while, especially when an economy is in catch-up mode, as Japan once was. What works best, argue the authors, is a mix of big-firm capitalism and entrepreneurial capitalism. And this happens to describe America's economy during the past 20 years, during which time it has reversed its seemingly inevitable long-term decline and delivered a “productivity miracle”.

The possibility of change is at the heart of “Good Capitalism, Bad Capitalism”. The authors are sceptical—for the most part, plausibly—of claims that the growth rates of economies are largely predestined by culture or geography, as books such as “The Wealth and Poverty of Nations” by David Landes or Jared Diamond's “Guns, Germs and Steel” suggest. There are no quick fixes, but over time the right policies can make a big difference, as can the wrong policies.

The authors argue that continental Europe and Japan, currently dominated by big-firm capitalism, can increase the role of entrepreneurial capitalism—perhaps, ironically, by learning from the incremental

approach to reform of the Chinese government. And America, they say, is in danger of stifling its own entrepreneurial capitalism through the same increased regulation and risk-aversion that led to the dominance of big-firm capitalism in America in the 1960s and 1970s. If so, it risks losing its capitalistic crown, not as a result of any external threat, but through its own fault.

Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity.
By William J. Baumol, Robert E. Litan and Carl J. Schramm.
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Ronald Reagan

The instinctual man

Jul 5th 2007
From The Economist print edition

“I'M ALONE. Nancy left this morning for Denver, Phoenix and the ranch...Faza Largeau in Chad has fallen to the rebels and Quadafi's forces.” This entry in his diary for August 10th 1983 shows that, to Ronald Reagan, his wife Nancy took priority over—and was more spellable than—an interfering Libyan dictator. The White House was a lonesome place without her. “I pray I'll never face a day when she isn't there” (April 11th 1981).

A diary tells you more about a politician than anything else he writes or says; in a diary, he is less inhibited because he knows he probably will not be around when other people get to read it. Reagan's handwritten summary of almost every day of his 1981-89 presidency shows more clearly than ever before the way his mind worked. He was certainly no intellectual. He reached his conclusions, for the most part, out of the feeling part of his mind (“my gut instinct”). Having done so, he stuck to his guns nonchalantly but implacably. On the whole, it worked pretty well—especially in his cold-war policy.

The Reagan Diaries
By Ronald Reagan. Edited by Douglas Brinkley

HarperCollins; 767 pages; $35 and £30

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Of course, this way of doing things can be a bit blurry. Reagan sounds genuinely surprised in his diary about the Iran-contra mess, in which his people sold weapons to Iran and then sent some of the money to the contras, the rebels trying to overthrow the government of Nicaragua. They “didn't tell me about this” (November 24th 1986). The claim by Oliver North, who ran the operation, that he had talked to Reagan about it at Camp David was “complete fiction...He's never been there while I've been President” (February 11th 1987). At best, Reagan had let big bad things happen behind his back.

There was also some blurriness about the Falklands war. Reagan seems to have started off more or less neutral. “The Royal Navy is sailing toward the Falklands to oust Argentina. Both sides want our help” (April 6th 1982). Rather shiftily, he denies that America was in fact helping Britain (April 14th). Eventually Margaret Thatcher won him round: “She feels the loss of life so far can only be justified if they win. We'll see...she may be right” (May 31st).

But the combination of instinct and willpower worked fine in dealing with Russia, the main issue of his presidency. Reagan sat through the deaths of three Soviet leaders until Mikhail Gorbachev became leader of a crumbling Soviet Union in 1985. He quite liked Mr Gorbachev, though their first meeting was rough: “He was really belligerent, & d**n it I stood firm. That took us til lunch” (November 20th 1985). Reagan's stubbornness worked. “Congratulated him for his courage in leaving Afghanistan. Then tried to show him how some of the things we're urging on him would actually help bring about his perestroika” (May 30th 1988). By the end of 1989 the Soviet block had collapsed, followed by the Soviet Union itself.

And the entry which tells you most? Just after Reagan's near-assassination in March 1981, when he thought he might be dying: “But I realized I couldn't ask for Gods help while at the same time I felt hatred for the mixed up young man who had shot me. Isn't that the meaning of the lost sheep? We are all Gods children and therefore equally beloved by him.”

The Reagan Diaries.
By Ronald Reagan. Edited by Douglas Brinkley.
HarperCollins; 767 pages; $35 and £30

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New novel

An innocent in a terrorist mess

Jul 5th 2007
From The Economist print edition

THE publishers of “Callisto” are keen to promote Torsten Krol's first-person narrator as a Forrest Gump in the age of terrorism. As a thumbnail sketch, that's apt enough. Odell Deefus (“Isn't that a nigger name?” is a recurrent refrain) is a Midwestern hick whose dorky, good-natured prose is scattered with malapropisms like “premedicated murder”.

When his car breaks down en route to enlisting in the army, Odell wanders fatefully into just the wrong house for a glass of water. Through a tumble of plot turns, first the house's resident—whom Odell kills by accident early on—and then Odell himself are mistaken for Islamist terrorists. Once the FBI and Homeland Security get on board this over-the-top farce, it is inevitable that Odell will end up being tortured in Guantánamo Bay.

Callisto
By Torsten Krol

Atlantic Books; 448 pages; £10.99. Pan Macmillan Australia; A$32.95

Buy it at
Amazon.co.uk

Yet the voice of the narrator is a bit too goofy to carry a novel of this length, and by about halfway through it begins to grate. The Forrest Gump, from-the-mouths-of-babes device depends on naivety guilelessly begetting wisdom. When wide-eyed observations are obvious or underwhelming, you are not reading the musings of an *idiot savant*, but of a plain idiot.

With corrupt cops, drug-running prison guards and murderous right-wing televangelists, such a broad, rollicking satire of contemporary America is reminiscent of “Vernon God Little” by D.B.C. Pierre. “Callisto” has a similarly blunt-edged sword, whose slashes are likely to play well to the peanut gallery outside the United States.

Though the publisher attempts to mythologise the mysterious, reclusive nature of Mr Krol, a novelist who “lives deep in the Australian outback”, it is reasonably safe to infer from the narrator's use of “mobile” rather than “cell” that the writer is not American. A thought experiment, then: how would an American novelist's slice-and-dice job on a country not his own be received? Americans take a carve-up from foreigners with amiability, and often join in the fun. It seems a bit unfair that the favour is rarely returned.

Callisto.
By Torsten Krol.
Atlantic Books; 448 pages; £10.99. Pan Macmillan Australia; A$32.95

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Food

History on a plate

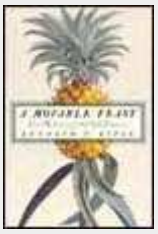
Jul 5th 2007
From The Economist print edition

FROM the origins of agriculture about 11,000 years ago to the spread of Big Macs and Chinese restaurants around the world today, the story of food is also one of globalisation, argues Kenneth Kiple. The co-editor of “The Cambridge World History of Food” (2000), he draws largely upon his earlier reference work as he describes the emergence of different foods in various parts of the world, and the myriad processes by which they spread, mingled and spawned new offspring, from chilli con carne to the Happy Meal.

It is a fascinating tale. The opening of the Silk Road in the first century BC, for example, meant that knowledge of winemaking passed eastwards from the Middle East to China, while the idea of noodles moved in the opposite direction. And the “Columbian exchange” of foodstuffs between the Old and New Worlds was second in importance in food history only to the adoption of agriculture.

Several themes emerge from the resulting historical casserole. Across time and space, food has always been used to delineate social distinctions, whether in Roman dining rooms or modern gourmet supermarkets. The dividing line between foods and medicines has always been a hazy one. New foods are generally regarded with suspicion, as potatoes were in 18th-century Europe and genetically modified crops are by many people in the 21st.

A Movable Feast: Ten Millennia of Food Globalization
By Kenneth F. Kiple



Cambridge University Press; 384 pages; $27 and £15.99

Buy it at
Amazon.com
Amazon.co.uk

But today, after ten millennia of food globalisation, we are living at the end of food history—a time when everything is available everywhere. Spices that once commanded exorbitant prices—and prompted merchants to invent tall tales to obscure their origins—can now be found in the supermarket. Tomatoes and maize from the New World were unknown to the Romans but are now central to Italian cuisine. India is now the biggest producer of peanuts, a South American crop. China is the largest producer of wheat, a Middle Eastern crop, and of potatoes, originally from South America. Brazil dominates the production of coffee, originally from Ethiopia, and of sugar, originally from New Guinea. It is globalisation in a bowl.

Mr Kiple's book covers an enormous amount of ground and, like any stew, can be a bit lumpy at times. But it is brimming with curious titbits: the use of cocoa beans as currency; the accidental domestication of rye, oats and various legumes after they hitched a ride with wheat and barley; Coca-Cola's origins as a health tonic. Anyone interested in the history of food for whom “The Cambridge World History of Food” seems too large a helping will find Mr Kiple's sprightly summary volume far more palatable.

A Movable Feast: Ten Millennia of Food Globalization.
By Kenneth F. Kiple.
Cambridge University Press; 384 pages; $27 and £15.99

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Wellcome Collection

The bitter insights of the heart

Jul 5th 2007
From The Economist print edition

A new gallery of medical curiosities opens in London

Wellcome Library

Friedrich Tiedemann lays the heart bare

HENRY WELLCOME, a pharmaceutical entrepreneur who introduced the world to the tablet, spent his childhood roaming Wisconsin and Minnesota in a covered wagon. His first taste of medicine came when, aged eight, he helped his uncle care for the wounded during the great Sioux rebellion of 1862. Later in life he learned the difficulties of quinine production in Peru and organised archaeological digs in Sudan. He became great friends with Henry Morton Stanley, the famous African explorer.

It is no surprise, therefore, that Sir Henry (whose pharmaceutical company gave rise to the world's second-biggest medical research charity, the Wellcome Trust) picked up a good deal of exotic bric-a-brac over his lifetime. In fact he collected more than 1m objects and employed ten people to help him do so. Some of the quirkiest among those objects—all in some way connected to medicine, science and health—are exhibited in three new galleries that opened last month in the company's grand former offices in London. Napoleon's toothbrush, Benjamin Disraeli's death mask and Charles Darwin's whalebone walking stick are among them.

“The Heart” is the Wellcome Collection's current temporary exhibition. Like the two permanent ones—“Medicine Man” and “Medicine Now”—it does not tire visitors by overloading them with facts. Nor does it confound them with the worrisome feeling that they should be having abstract thoughts about art. Instead, the curatorial philosophy has been to cobble together artistic and medical items, displayed as if no distinction exists.

Out of its usual context, the transparent plastic and primary colours of a heart-and-lung machine make it look like a child's toy. It shares space with an Andy Warhol print, a knife with which Aztecs extracted the hearts of human sacrifices and the quiet sound of Ray Charles singing “Take these chains from my heart”. Move away from the recording and the familiar lubdub of a heartbeat fills the air. For their comfort, visitors are presented with movable heart-shaped stools. A book of essays on the organ's cultural importance accompanies the exhibit (“The Heart” edited by James Peto, Yale University Press).

The permanent exhibitions contain quite a few human specimens. “Medicine Man” displays a lock of George III's hair with traces of arsenic, an 18th-century treatment for madness. “Medicine Now” continues Sir Henry's collecting taste into the genomics era. It has socks arranged to look like the 23 pairs of human chromosomes, and wide chairs which, if you sit in them, trigger the voice of an overweight woman talking about her struggles with her diet. Next to the chairs stands a head-to-toe slice of a human corpse. Londoners, though, seem cavalier about viewing body parts as art. A diamond-encrusted cast of a skull by Damien Hirst, recently on show in a Mayfair gallery, was noticed far more for its over-the-top bling than for any connection with the human brain.

“The Heart” is at the Wellcome Collection, London, until September 16th.

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Liz Claiborne

Jul 5th 2007
From The Economist print edition

Anne Elizabeth Jane Claiborne, a fashion revolutionary, died on June 26th, aged 78

Corbis

ALMOST every woman knows the feeling. You get into the lift, and a very important woman in your office enters after you, talking to a very important man. She is impeccable, from polished court shoes to understated earrings. You are not. You are wearing trainers, because you want to be comfortable on city pavements, and a blouse that doesn't quite match the skirt because the one that matched better was too grubby round the neck when you went to find it. Nothing is ironed, and there is a faint stain on the skirt that is yesterday's lunchtime soup ineffectually rubbed off with a Kleenex.

The very important woman glances at you, from the feet upwards. Her lip curls almost imperceptibly. She looks away. You wish that you might become a vapour, and leak away through the lift walls.

Liz Claiborne understood all that. Not that anyone ever looked at her that way, since from immaculately creased slacks to cropped dark hair to giant, fun glasses she was absolutely *comme il faut*. But she grasped exactly what American women needed as the aproned housewife of the 1950s morphed into the professional of the 1970s. Good tailoring, classic styling, quality material, mix-and-match colours, a dash of panache: just the tops and trousers and skirts, set off with a Claiborne scarf and a Claiborne leather tote, in which to stride down Fifth Avenue or into the halls of power.

“Effortless” is still a favourite word in the Claiborne catalogue. Ms Claiborne knew her customers were imperfect, mostly with bodies they didn't like, and wanted clothes that flattered them with no discomfort and no ironing. She took care to give them collars that stayed flat and pleats that stayed pressed, and comforted the size-20s with billowing tops “to accentuate your form”. Her customers worked hard, juggling office and children, but also wanted to have fun without dashing home to change; so her clothes were designed not to rumple or stain, to go “effortlessly from work to weekend”, and even “well into the night”. And since in all this frazzle they had little time to shop, she offered them—from 1976 onwards, when the brand was launched in top department stores like Saks and Bloomingdale's—separates filed on adjoining racks, to be plucked from the hangers at speed.

The undertow of defiance in all this was quite deliberate. Though her business was clothing women, Ms Claiborne was in a world where, to her lasting fury, men still ran things and men got all the breaks. Her father had never considered that she needed much education; instead, she studied art in painters' studios in Europe, learning almost informally “how to see” and how to use colour. She then spent years, in New York's Garment District along Seventh Avenue, making sketches and picking up pins for male designers who proved cloth-eared where her ideas for fashions were concerned. The big guns of style were Calvin Klein and Bill Blass, both unaffordable to most working women. But Ms Claiborne designed away, leaving her second husband and two male business partners to do the duller stuff, until by 1988 Liz Claiborne Inc had sales of $1.2 billion and a third of the American women's upscale sportswear

market. She went into menswear, shoes, perfume, soft furnishings. Hers was the first company founded by a woman to reach the *Fortune* 500.

In tux and fedora

As such, Ms Claiborne was keen to make it feel a different place. She put flowers round the offices, painted them very white, did away with doors and, to show contempt for male hierarchies, listed her employees in the handbook in alphabetical order. Meetings were controlled by the CEO, as crisp and aloof as a *châtelaine* by some accounts, ringing a dainty glass bell. But anyone who doubted her revolutionary intent had only to spot her love of red—"Liz Red", the brightest in the palette, in sweaters and bags and round the rim of her glasses—to know what she was up to.

American women struggled to keep pace with her. She knew she was several steps ahead, but had no wish to shock; if she thought they could wear puce, or dare a keyhole halter to work, she could nudge them forward, because they trusted her taste. She would notice them with delight in the streets in her chinos and her tops, and would sometimes sneak into changing rooms, posing as a sales girl, to show them how to wear clothes. She was part of a huge joint venture to build confidence. And when she retired in 1989, leaving a company that now controls 40 brands and has annual sales of $5 billion in 22,000 sites round the world, she set up a foundation whose main interests, as well as saving wildlife, were stopping domestic violence and making women self-sufficient.

The business of fashion had ceased to enchant by then. Liz Claiborne Inc had become too huge, and the task of vetting designs too wearisome. The fashions going out in her name were "cheap-looking"; she began to dress in DKNY. But clothes never lost their fascination. In her late 60s Ms Claiborne appeared on a red carpet in a black tux and black fedora, the epitome of style. She had taught women to be sassy and sporty in a man's world; though nothing would ever stop them, among themselves, eyeing each other most disparagingly up and down.

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Overview

Jul 5th 2007
From The Economist print edition

The **euro area's** unemployment rate fell to 7.0% in May, the lowest since records for the currency zone began in 1996. Consumer prices in the euro area rose by 1.9% in the year to June, the same rate as in May. Retail trade fell by 0.5% in May, leaving sales volumes up just 0.4% from a year earlier. Trade was particularly weak in Germany, where sales fell by 1.9% in the year to May.

American manufacturing picked up in June according to the Institute for Supply Management (ISM). Its index rose to 56.0, its highest level for more than a year.

The Reserve Bank of **Australia** left its benchmark interest rate unchanged at 6.25% on July 3rd. Turnover in Australia's retail trade fell for a second successive month in May.

Japan's core consumer prices, which exclude volatile fresh-food prices, fell by 0.1% in the year to May. The unemployment rate was 3.8% in May.

Britain's current-account deficit narrowed to £12.2 billion (3.6% of GDP) in the first quarter from £14.5 billion (4.3% of GDP) in the previous quarter. House prices rose by 10.7% in the year to the second quarter, according to Halifax, a mortgage lender.

Japan will grow by 2.6% this year, according to *The Economist*'s monthly poll of forecasters (see article), a more optimistic prognosis than a month ago, when they expected it to grow by 2.3%. The soothsayers have also revised up their forecast for American inflation from 2.5% to 2.7%.

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Output, prices and jobs

Jul 5th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.9 Q1	+0.7	+2.1	+2.7	+1.6 May	+2.7 May	+4.2	+2.7	4.5 May
Japan	+2.6 Q1	+3.3	+2.6	+2.3	+3.7 May	nil May	+0.1	–0.1	3.8 May
China	+11.1 Q1	na	+10.3	+9.7	+18.1 May	+3.4 May	+1.4	+2.8	9.5 2006
Britain	+3.0 Q1	+2.8	+2.8	+2.4	+0.4 Apr	+2.5 May**	+2.2	+2.4	5.5 Apr††
Canada	+2.0 Q1	+3.7	+2.5	+2.7	–0.7 Apr	+2.2 May	+2.8	+2.3	6.1 May
Euro area	+3.0 Q1	+2.4	+2.7	+2.3	+2.8 Apr	+1.9 Jun	+2.5	+2.0	7.0 May
Austria	+3.5 Q1	+3.6	+2.9	+2.6	+9.1 Apr	+2.1 May	+1.7	+1.8	4.4 May
Belgium	+2.9 Q1	+2.9	+2.6	+2.3	+4.6 Apr	+1.3 Jun	+1.9	+1.8	10.7 May‡‡
France	+2.1 Q1	+2.4	+2.0	+2.1	+1.7 Apr	+1.1 May	+2.1	+1.5	8.1 May
Germany	+3.6 Q1	+2.1	+2.8	+2.3	+3.7 Apr	+1.8 Jun	+2.0	+1.9	9.1 Jun
Greece	+4.6 Q1	na	+3.7§	+3.2§	+0.2 Apr	+2.6 May	+3.1	+2.6§	9.5 Mar
Italy	+2.3 Q1	+1.1	+1.9	+1.7	+0.8 Apr	+1.6 May	+2.2	+1.8	6.2 Q1
Netherlands	+2.5 Q1	+3.6	+2.7	+2.6	+5.8 Apr	+1.7 Jun	+1.7	+1.8	4.6 May††
Spain	+4.1 Q1	+4.6	+3.7	+2.8	+2.4 May	+2.3 May	+4.1	+2.6	8.2 May
Czech Republic	+6.1 Q1	+6.1	+5.3	+4.9	+14.0 Apr	+2.4 May	+3.1	+2.6	6.4 May
Denmark	+1.8 Q1	+1.9	+2.2	+2.0	–4.3 May	+1.8 May	+2.0	+1.9	3.7 Apr
Hungary	+2.7 Q1	+2.4	+2.6	+3.1	+10.6 Apr	+8.5 May	+2.8	+6.8	7.3 May††
Norway	+2.8 Q1	+2.9	+2.7§	+2.5§	+6.1 Apr	+0.3 May	+2.3	+0.8§	2.7 Apr††
Poland	+7.4 Q1	na	+6.0	+5.3	+8.1 May	+2.3 May	+1.2	+2.2	13.0 May‡‡
Russia	+7.9 Q1	na	+6.7	+6.4	+6.7 May	+8.5 Jun	+9.1	+8.2	6.9 May‡‡
Sweden	+3.0 Q1	+2.6	+3.5	+3.2	+3.6 Apr	+1.7 May	+1.6	+1.8	3.9 May‡‡
Switzerland	+2.4 Q1	+3.2	+2.4	+2.1	+7.3 Q1	+0.5 May	+1.4	+0.7	2.7 May‡‡
Turkey	+6.8 Q1	nil	+4.6	+5.7	+1.4 Apr	+8.6 Jun	+10.1	+8.3	11.4 Q1‡‡
Australia	+3.8 Q1	+6.6	+3.5	+3.3	+3.7 Q4	+2.4 Q1	+3.0	+2.3	4.2 May
Hong Kong	+5.6 Q1	+2.0	+5.3	+4.9	–1.5 Q1	+1.2 May	+2.1	+2.4	4.3 May††
India	+9.1 Q1	na	+8.1	+7.6	+13.6 Apr	+6.6 May	+6.3	+5.7	7.6 2006
Indonesia	+6.0 Q1	na	+6.0	+5.8	+8.3 Apr	+5.8 Jun	+15.5	+6.5	10.3 2005
Malaysia	+5.3 Q1	na	+5.4	+5.6	+0.4 Apr	+1.4 May	+3.9	+2.3	3.4 Q1
Pakistan	+6.6 2006§§	na	+6.8§	+5.9§	+6.8 Sep	+7.4 May	+7.1	+6.3§	na
Singapore	+6.1 Q1	+7.6	+5.5	+5.7	+17.7 May	+1.0 May	+1.1	+1.6	2.9 Q1
South Korea	+4.0 Q1	+3.6	+4.3	+4.6	+6.6 May	+2.5 Jun	+2.4	+2.2	3.4 May
Taiwan	+4.2 Q1	na	+4.2	+4.6	+6.4 May	+0.1 Jun	+1.7	+1.3	4.0 May
Thailand	+4.3 Q1	+4.9	+4.0	+4.7	+6.3 May	+1.9 Jun	+5.9	+2.5	1.6 Mar
Argentina	+8.0 Q1	+4.1	+7.5	+5.7	+4.0 May	+8.8 May	+11.5	+9.8	9.7 Q1‡‡
Brazil	+4.3 Q1	+3.2	+3.9	+3.7	+6.0 Apr	+3.2 May	+4.2	+3.6	10.1 May‡‡
Chile	+5.8 Q1	na	+5.2	+5.1	+3.0 May	+2.9 May	+3.7	+2.6	6.7 May††‡‡
Colombia	+8.1 Q1	nil	+5.4	+4.6	+13.3 Apr	+6.0 Jun	+3.9	+5.1	11.0 Apr‡‡
Mexico	+2.6 Q1	+0.6	+3.2	+3.8	+1.5 Apr	+3.9 May	+3.0	+3.8	3.2 May‡‡
Venezuela	+8.8 Q1	na	+6.6	+3.9	+6.7 Mar	+19.5 May	+10.4	+17.6	8.0 Q2‡‡
Egypt	+7.4 Q1	na	+6.3	+5.6	+10.5 2006	+10.5 May	+5.3	+9.9	9.0 Q4‡‡
Israel	+5.4 Q1	+6.3	+4.7	+4.3	+9.1 Apr	–1.3 May	+3.5	+0.9	7.7 Q1
Saudi Arabia	+4.3 2006§	na	+3.9§	+5.0§	na	+3.0 May	+2.2	+2.7§	na
South Africa	+5.4 Q1	+4.7	+4.8	+4.9	+3.8 Apr	+6.9 May	+3.9	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+9.9 Q1	+9.5	+9.4§	+5.8§	+6.2 May	+5.7 May	+4.7	+5.3§	4.7 Apr
Finland	+5.4 Q1	+3.4	+2.7§	+2.5§	–2.0 May	+2.4 May	+1.7	+1.4§	6.3 May
Iceland	–0.1 Q1	–3.6	+1.0§	+2.2§	+7.6 2006	+4.0 Jun	+8.0	+5.0§	1.1 May‡‡
Ireland	+7.5 Q1	+20.1	+5.0§	+3.4§	+5.8 Apr	+5.0 May	+3.9	+4.2§	4.5 May
Latvia	+10.7 Q1	na	+9.6§	+7.5§	–0.9 Apr	+8.2 May	+6.6	+7.6§	5.6 May
Lithuania	+8.3 Q1	+6.1	+7.0§	+6.4§	na	+4.8 May	+3.5	+1.9§	5.4 Apr
Luxembourg	+5.0 Q4	+7.0	+4.9§	+4.9§	+1.8 Mar	+1.9 May	+3.1	+2.2§	4.4 Apr‡‡
New Zealand	+2.7 Q1	+2.5	+2.8§	+3.1§	–0.4 Q4	+2.5 Q1	+3.3	+2.2§	3.8 Q1
Peru	+7.3 Apr	na	+6.7	+5.6	+10.8 Apr	+1.6 Jun	+1.8	+1.1	8.0 May‡‡
Philippines	+6.9 Q1	+10.3	+5.7	+5.8	–1.3 Apr	+2.4 May	+6.9	+3.9	7.4 Q2‡‡
Portugal	+2.1 Q1	+3.2	+1.8§	+2.1§	+3.8 Apr	+2.4 May	+3.8	+2.2	8.4 Q1‡‡
Slovakia	+9.0 Q1	na	+8.0§	+6.0§	+14.9 Apr	+2.3 May	+4.8	+2.5	10.5 Apr
Slovenia	+7.2 Q1	na	+4.6§	+4.1§	+13.1 Apr	+3.6 Jun	+2.9	+2.7	7.9 Apr‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.3% in May. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

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The Economist commodity-price index

Jul 5th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Jun 26th	Jul 3rd*	% change on one month	% change on one year
Dollar index				
All items	202.2	202.3	–2.1	+15.1
Food	169.9	168.8	+0.5	+20.8
Industrials				
All	243.8	245.6	–4.2	+10.4
Nfa†	162.3	159.2	–4.1	–1.4
Metals	288.4	292.8	–4.3	+14.6
Sterling index				
All items	153.3	152.1	–3.2	+5.4
Euro index				
All items	138.9	137.4	–2.7	+8.2
Gold				
$ per oz	644.50	653.10	–2.8	+4.5
West Texas Intermediate				
$ per barrel	67.80	71.43	+8.9	–2.0

*Provisional †Non-food agriculturals.

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The Economist poll of forecasters, July averages

Jul 5th 2007
From The Economist print edition

The Economist poll of forecasters, July averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2007	2008	2007	2008	2007	2008	2007	2008
Australia	2.8/4.1	2.8/3.9	3.5 (3.0)	3.3 (3.2)	2.3 (2.5)	2.7 (2.5)	-5.4 (-5.3)	-5.1
Belgium	2.2/2.9	1.9/2.5	2.6 (2.5)	2.3	1.8	1.9	2.1 (2.0)	2.1
Britain	2.4/3.0	2.0/2.9	2.8 (2.7)	2.4 (2.5)	2.4	2.0 (1.9)	-3.2 (-3.1)	-3.3 (-3.2)
Canada	2.1/3.0	2.3/2.9	2.5 (2.4)	2.7	2.3 (2.0)	2.2	1.6 (1.2)	1.3 (1.1)
France	1.8/2.3	1.8/2.5	2.0 (2.1)	2.1 (2.2)	1.5 (1.4)	1.8	-1.2 (-1.3)	-1.1 (-1.2)
Germany	2.5/3.1	1.6/2.9	2.8 (2.7)	2.3	1.9	1.6	4.9 (4.8)	5.0 (4.7)
Italy	1.2/2.1	1.5/2.0	1.9 (2.0)	1.7	1.8 (1.9)	2.0	-2.0 (-2.1)	-2.0 (-2.2)
Japan	2.1/2.9	2.0/2.9	2.6 (2.3)	2.3	-0.1 nil	0.4 (0.3)	3.4 (4.3)	4.3 (4.2)
Netherlands	2.4/3.0	2.2/2.9	2.7 (2.6)	2.6 (2.5)	1.8 (1.7)	1.9	7.8 (8.2)	7.5
Spain	3.4/4.1	2.2/3.2	3.7 (3.6)	2.8	2.6	2.9	-8.6 (-8.8)	-8.3
Sweden	3.2/4.0	2.9/3.6	3.5 (3.7)	3.2 (3.1)	1.8 (1.7)	2.0 (1.9)	6.9 (6.6)	6.6 (6.1)
Switzerland	2.3/2.6	1.9/2.5	2.4 (2.2)	2.1	0.7 (0.6)	1.2	14.4 (15.7)	15.5 (15.3)
United States	1.9/2.4	2.3/3.3	2.1 (2.0)	2.7	2.7 (2.5)	2.4 (2.3)	-6.0 (-6.2)	-5.9 (-6.1)
Euro area	2.4/2.8	2.0/2.7	2.7 (2.6)	2.3 (2.2)	2.0 (1.9)	1.9	nil (0.1)	0.2 (0.1)

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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Trade, exchange rates, budget balances and interest rates

Jul 5th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Jul 4th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−829.9 Apr	−803.4 Q1	−6.0	–	–	−1.4	5.25	5.04
Japan	+92.0 Apr	+186.9 Apr	+3.4	123	116	−4.4	0.64	1.86
China	+216.7 May	+249.9 2006	+8.1	7.59	8.00	−1.3	3.11	4.12
Britain	−158.3 Apr	−93.0 Q1	−3.2	0.50	0.55	−2.8	5.98	5.46
Canada	+46.0 Apr	+18.5 Q1	+1.6	1.06	1.11	0.9	4.42	4.55
Euro area	+8.6 Apr	+8.1 Apr	nil	0.73	0.79	−0.8	4.18	4.56
Austria	+0.7 Apr	+10.3 Q4	+2.9	0.73	0.79	−0.8	4.18	4.62
Belgium	+19.5 Apr	+11.2 Mar	+2.1	0.73	0.79	nil	4.24	4.63
France	−34.8 Apr	−32.3 Apr	−1.2	0.73	0.79	−2.9	4.18	4.61
Germany	+227.3 Apr	+167.7 Apr	+4.9	0.73	0.79	0.3	4.18	4.56
Greece	−46.6 Apr	−33.2 Apr	−8.4‡	0.73	0.79	−2.2	4.18	4.80
Italy	−22.4 Apr	−48.4 Apr	−2.0	0.73	0.79	−2.6	4.18	4.78
Netherlands	+43.7 Apr	+16.8 Q1	+7.8	0.73	0.79	0.6	4.18	4.60
Spain	−118.5 Apr	−113.0 Mar	−8.6	0.73	0.79	1.1	4.18	4.62
Czech Republic	+2.6 Apr	−5.7 Apr	−3.8	21.1	22.4	−4.1	3.00	4.59
Denmark	+5.2 Apr	+4.8 Apr	+2.3	5.46	5.87	4.0	4.41	4.62
Hungary	−0.4 May	−6.2 Q1	−4.7	180	221	−6.7	7.63	6.60
Norway	+54.1 May	+57.3 Q1	+14.3‡	5.83	6.25	16.8	4.83	5.12
Poland	−7.1 Apr	−8.8 Apr	−2.6	2.76	3.18	−2.3	4.77	5.64
Russia	+129.8 Apr	+87.4 Q1	+5.7	25.7	26.9	2.4	10.00	6.12
Sweden	+19.5 May	+29.8 Q1	+6.9	6.72	7.22	2.2	3.43	4.48
Switzerland	+10.5 May	+106.1 Q4	+14.4	1.22	1.23	0.3	2.71	3.15
Turkey	−53.4 May	−31.3 Apr	−7.0	1.29	1.60	−2.7	19.03	6.65§
Australia	−10.8 Apr	−43.8 Q1	−5.4	1.16	1.35	1.4	6.44	6.13
Hong Kong	−18.9 May	+23.2 Q1	+9.8	7.81	7.77	2.7	4.54	4.54
India	−63.2 May	−10.0 Q4	−1.8	40.5	46.1	−3.3	7.37	8.34
Indonesia	+41.4 May	+10.3 Q1	+2.2	9,008	9,120	−1.6	8.37	6.65§
Malaysia	+28.3 Apr	+25.6 Q4	+13.5	3.45	3.65	−3.7	3.62	5.55§
Pakistan	−13.6 May	−6.8 Q1	−5.7‡	60.4	60.3	−3.8	9.58	7.28§
Singapore	+35.4 May	+38.1 Q1	+23.3	1.52	1.59	0.3	2.45	2.86
South Korea	+18.7 Jun	+4.6 May	+0.2	920	947	0.5	5.01	5.44
Taiwan	+13.7 May	+28.1 Q1	+6.7	32.8	32.4	−2.2	2.55	2.61
Thailand	+7.7 May	+9.6 May	+2.1	34.2	38.2	−1.9	3.75	4.25
Argentina	+11.3 May	+7.8 Q1	+2.5	3.09	3.09	1.2	9.38	na
Brazil	+47.4 Jun	+15.1 Apr	+0.8	1.91	2.19	−2.4	11.93	6.16§
Chile	+25.5 May	+7.1 Q1	+1.3	524	541	5.5	5.40	5.65§
Colombia	−1.0 Mar	−2.9 Q4	−2.7	1,960	2,579	−0.9	8.38	6.19§
Mexico	−11.3 May	−5.5 Q1	−1.4	10.8	11.2	−0.2	7.18	7.62
Venezuela	+28.2 Q1	+23.8 Q1	+9.8	2,147	2,511	−4.7	10.09	6.55§
Egypt	−14.1 Q1	+3.3 Q1	+1.5	5.70	5.76	−5.5	6.78	5.52§
Israel	−7.5 May	+8.1 Q1	+3.6	4.19	4.40	−1.0	3.76	4.79
Saudi Arabia	+148.5 2006	+95.4 2006	+21.4‡	3.75	3.75	16.6	5.04	na
South Africa	−9.2 May	−16.6 Q1	−6.0	6.97	7.20	0.5	6.25	8.36
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.9 Apr	−3.1 Apr	−14.9‡	11.5	12.3	2.7	4.92	na
Finland	+12.3 Apr	+13.9 Apr	+5.7‡	0.73	0.79	2.5	4.14	4.61
Iceland	−1.9 May	−4.0 Q1	−18.7‡	62.0	75.3	1.8	13.79	na
Ireland	+35.2 Apr	−10.6 Q1	−5.0‡	0.73	0.79	0.5	4.18	4.60
Latvia	−5.8 Apr	−5.4 Apr	−20.0‡	0.51	0.55	nil	6.78	na
Lithuania	−6.0 Apr	−3.7 Apr	−10.3‡	2.53	2.72	−0.5	4.89	na
Luxembourg	−5.3 Apr	+4.5 Q1	na	0.73	0.79	0.3	4.18	na
New Zealand	−3.9 May	−9.1 Q1	−10.3‡	1.28	1.66	3.1	7.05	6.64
Peru	+9.0 Apr	+2.7 Q1	+1.8	3.17	3.26	0.4	4.51	na
Philippines	−3.7 Apr	+5.7 Mar	+3.6	46.1	52.8	−0.7	6.25	na
Portugal	−22.9 Mar	−17.8 Mar	−7.5‡	0.73	0.79	−3.3	4.18	4.74
Slovakia	−2.2 Apr	−3.7 Feb	−4.3‡	24.6	30.2	−2.9	4.15	4.59
Slovenia	−2.2 Apr	−1.5 Apr	−2.0‡	0.73	0.79	−1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

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Markets

Jul 5th 2007
From The Economist print edition

Markets

	Index Jul 4th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,577.3‡	+1.1	+8.9	+8.9
United States (S&P 500)	1,524.9‡	+1.2	+7.5	+7.5
United States (NAScomp)	2,645.0‡	+1.5	+9.5	+9.5
Japan (Nikkei 225)	18,168.7	+1.8	+5.5	+2.5
Japan (Topix)	1,782.4	+2.4	+6.0	+3.0
China (SSEA)	4,005.2	–6.4	+42.3	+46.2
China (SSEB, $ terms)	254.8	–7.1	+90.5	+95.8
Britain (FTSE 100)	6,673.1	+2.2	+7.3	+10.5
Canada (S&P TSX)	14,060.4	+2.3	+8.9	+19.9
Euro area (FTSE Euro 100)	1,421.8	+2.7	+11.2	+14.9
Euro area (DJ STOXX 50)	4,524.2	+2.5	+9.8	+13.5
Austria (ATX)	4,932.4	+3.5	+10.5	+14.2
Belgium (Bel 20)	4,657.9	+1.9	+6.1	+9.7
France (CAC 40)	6,098.1	+2.6	+10.0	+13.7
Germany (DAX)*	8,075.3	+3.5	+22.4	+26.5
Greece (Athex Comp)	4,922.2	+3.5	+12.0	+15.7
Italy (S&P/MIB)	42,408.0	+2.3	+2.4	+5.7
Netherlands (AEX)	554.3	+2.7	+11.9	+15.6
Spain (Madrid SE)	1,652.3	+2.0	+6.3	+9.8
Czech Republic (PX)	1,897.6	+3.4	+19.4	+18.3
Denmark (OMXCB)	479.2	+4.5	+13.0	+16.9
Hungary (BUX)	29,409.0	+3.0	+18.4	+25.1
Norway (OSEAX)	594.2	+4.8	+18.3	+26.3
Poland (WIG)	66,951.7	+2.0	+32.8	+39.9
Russia (RTS, $ terms)	1,943.3	+3.6	–1.5	+1.1
Sweden (Aff.Gen)	407.9	+2.9	+11.6	+13.6
Switzerland (SMI)	9,294.5	+3.0	+5.8	+6.2
Turkey (ISE)	49,476.3	+9.6	+26.5	+38.7
Australia (All Ord.)	6,332.6	+1.9	+12.2	+21.5
Hong Kong (Hang Seng)	22,218.6	+2.4	+11.3	+10.8
India (BSE)	14,880.2	+3.1	+7.9	+18.1
Indonesia (JSX)	2,196.1	+3.3	+21.6	+21.4
Malaysia (KLSE)	1,377.1	+1.5	+25.6	+28.6
Pakistan (KSE)	13,869.0	+1.5	+38.1	+39.3
Singapore (STI)	3,554.9	+1.4	+19.1	+20.1
South Korea (KOSPI)	1,838.4	+6.1	+28.2	+29.6
Taiwan (TWI)	9,069.0	+2.5	+15.9	+15.2
Thailand (SET)	825.5	+7.1	+21.4	+28.4
Argentina (MERV)	2,252.4	+1.1	+7.7	+6.9
Brazil (BVSP)	55,696.0	+2.9	+25.2	+39.9
Chile (IGPA)	15,167.7	+1.8	+22.6	+24.6
Colombia (IGBC)	10,651.8	–0.6	–4.6	+9.1
Mexico (IPC)	32,201.6	+4.5	+21.8	+22.5
Venezuela (IBC)	40,081.4	+1.7	–23.3	+19.5
Egypt (Hermes)	72,424.4	+4.3	+18.2	+18.4
Israel (TA-100)	1,135.2	+3.2	+23.2	+23.9
Saudi Arabia (Tadawul)	7,168.7	+2.1	–9.6	–9.6
South Africa (JSE AS)	28,844.3	+2.0	+15.8	+17.1
Europe (FTSEurofirst 300)	1,620.2	+2.6	+9.2	+12.8
World, dev'd (MSCI)	1,627.4	+2.5	+9.7	+9.7
Emerging markets (MSCI)	1,095.5	+4.8	+20.0	+20.0
World, all (MSCI)	406.7	+2.7	+10.6	+10.6
World bonds (Citigroup)	659.3	+0.6	+0.1	+0.1
EMBI+ (JPMorgan)	411.9	+0.6	+1.1	+1.1
Hedge funds (HFRX)	1,357.3	+0.5	+6.4	+6.4
Volatility, US (VIX)	14.9	15.5	11.6	(levels)
CDSs, Eur (iTRAXX)†	26.9	+0.2	+6.8	+10.2

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Global M&A

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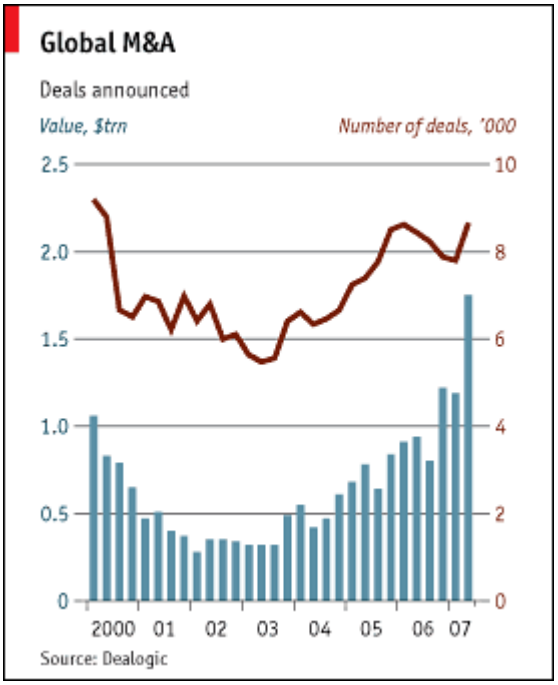

The value of mergers and acquisitions in the first two quarters of 2007 reached $2.7 trillion, with 465 deals worth over $1 billion each. The total was buoyed by buy-outs, including the largest on record: the purchase of BCE, a Canadian telecoms company. The average size of an M&A deal was $298m, 58% higher than the first half of 2006, and the number of hostile bids (407) was almost four times greater. American companies were the targets of more than $1 trillion-worth of deals, the highest total ever, and firms in emerging markets were the targets of $370 billion-worth, or 13% of the world total. The banks advising on M&A transactions were pleased: they earned $11 billion in advisory revenues in the first half of 2007.

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